BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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| In re: Application for a rate increase by GTE FLORIDA INCORPORATED. | DOCKET NO. 920188-TL |
| In re: Resolution by the City Commission of the City of Plant City and the Hillsborough County Board of County Commissioners for extended area service between the Plant City exchange and all of Hillsborough County. | DOCKET NO. 920939-TL<br>ORDER NO. PSC-93-0108-FOF-TL<br>ISSUED: 01/21/93 |

The following Commissioners participated in the disposition of this matter:

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## FINAL ORDER

BY THE COMMISSION:

## I. BACKGROUND

On May 1, 1992, GTE Florida Incorporated (GTEFL or the Company) filed its MFRs in this rate case. In its original filing, GTEFL proposed rate changes which would have produced additional gross annual revenues of $110,997,618.

The Company filed revised direct testimony on September 3, 1992, requesting rates which would produce gross annual revenues of $65,994,207.

The Company's last rate case was Docket No. 810095-TP. On November 23, 1981, the Commission entered Order No. 10418 in that Docket, authorizing GTEFL to increase its rates and charges for telephone service in Florida. In that proceeding, the Commission granted an overall rate of return for the Company to be in the range of 9.8% to 10.48%, with a return on equity of 15.5% ± 1%. The Company's authorized return on equity was reduced to a midpoint of 12.3% effective January 1, 1990, by Order No. 22352, issued on December 29, 1989.

The Company states that it has been approximately ten years since its last rate increase, and it cannot continue to maintain sustained earnings within its authorized range due to changes affecting its financial position. GTEFL asserts that its intrastate rates and charges as presently fixed are inadequate and insufficient to allow it to continue to realize fair and reasonable compensation for its services on a pro forma basis. In addition, the Company alleges that its current rate structure is inappropriate and is not designed to allow GTEFL to adequately address the competitive market which it currently faces. In addition, the Company states that its requested revenue increase is necessary to cover cost increases due to 1) changes to the separations process which continue to place additional costs on the intrastate jurisdiction, 2) the implementation of SFAS-106 which GTEFL intends to adopt on January 1, 1993, 3) limited revenue growth, and 4) higher expected returns demanded by investors.

The Company was granted interim permission to use a historical test year for the 12 months ended December 31, 1991, as adjusted for rate year adjustments through December 31, 1993.

On March 30, 1992, GTEFL initiated Docket No. 920284-TL, to request new depreciation rates to be effective January 1, 1993. That Docket culminated in a stipulation which was approved in Order No. PSC-92-0976-S-TL, issued September 10, 1992. The depreciation expenses resulting from that represcription will have a continuing effect in subsequent years.

By Order No. PSC-92-0670-FOF-TL, issued July 17, 1992, we suspended the tariffs filed by GTEFL as part of its MFR requirements.

The intervention of the Office of Public Counsel (OPC) in this Docket was acknowledged by Order No. PSC-92-0041-PCO-TL, issued March 11, 1992. In addition, intervention was sought by and granted to AT&T Communications of the Southern States, Inc. (AT&T), Department of Defense (DOD), Florida Ad Hoc Telecommunications Users Committee (Ad Hoc), Florida Consumer Action Network (FCAN), Florida Cable Television Association, Inc. (FCTA), Florida Pay Telephone Association, Inc. (FPTA), The Florida Interexchange Carriers Association, Hillsborough County (Hillsborough), Intermedia Communications of Florida, Inc. (Intermedia), MCI Telecommunications Corporation (MCI), City of Plant City (Plant City), Sprint Communications Company Limited Partnership (Sprint). FIXCA and DOD did not file a Post-hearing Brief. Pursuant to Rule 25-22.056(1), Florida Administrative Code, they have waived their positions on the issues in the case.

Customer hearings were held in this matter on August 17, 1992, in Tampa; on September 16, 1992, in St. Petersburg; on September 17, 1992, in Sarasota; and on September 24, 1992, in Lakeland. An informal prehearing conference was held on September 9, 1992. The final prehearing conference was held on September 18, 1992. The rate case hearing was held on October 13, 14, 15, 16, and 19, 1992, in Tallahassee.

On January 12, 1993, we issued Order No. PSC-93-0048-FOF-TL, which separately addressed access charges, intraLATA private line depooling and the flowback of excess deferred taxes in conjunction with our decisions herein.

## II. SUMMARY OF DECISION

As discussed in detail below, we have found that a decrease in revenue requirements of $14,475,000 is appropriate for GTEFL based on a rate base of $1,902,319,000 and a required rate of return of 8.82% which produces a required net operating income (NOI) of $167,785,000. We have found the appropriate test year NOI to be $176,671,000 which produces a NOI excess of $8,886,000. We approved a return on equity of 12.2% plus or minus 100 basis points for a range of 11.2% to 13.2%. We have also approved an equity ratio of 56.42% for ratemaking purposes.

A summary of rates is included as Attachment I of this Order.

## III. STIPULATIONS

We approve the following Stipulations:

1. Testimony regarding quality of service will be inserted into the record as though read. Parties will forego cross examination of witnesses on this subject (N. Pruitt, A. Taylor, quality of service portion of S. Inkrott).

2. Testimony of R.L. Hodges, regarding depreciation issues will be inserted into the record as though read. Parties will forego cross examination of the witness regarding depreciation issues.

3. The Company agrees to increase rent revenues by $1,196,056.

4. The capital carrying charge shall be offset by the amortization of JDITC. Taxes shall be reduced by $16,622.

5. GTEFL will file, within 30 days after the date of the final order in this Docket, an updated schedule to reflect the actual rate case expense.

6. The depreciation rates that were stipulated in the GTE Depreciation Docket are prudent for the provision of basic local telephone services as they are currently offered.

   The parties to this Docket who were not parties in the Depreciation Docket do not oppose this stipulation. However, they do not join the stipulation in this Docket regarding the meaning of a stipulation approved by the Commission in the Depreciation Docket.

7. The Company will file tariffs on December 31, 1992, with an effective date of January 6, 1993.

8. Customers shall be notified of any rate changes on their first bill after the effective dates of the rate change with a bill insert issued with this first bill.

9. The bill stuffer shall contain the following information:

    a) An overview of the case and a summary of the final order.

    b) A summary of services for which rates have been adjusted, with current rates and approved rates listed side by side.

    c) A statement that information on the new rates is available at GTEFL business offices.

    d) Explanation of the credit for discontinuance or modification of service and how it may be obtained.

    The bill stuffer shall be submitted to the Commission Staff for review within 5 days of the Commission's vote.

10. MFR workpapers are included in the record of this Docket. References to the MFRs include the supporting workpapers.

11. FAS 106 is included in the record of this case.

12. At the September 18, 1992, prehearing conference there was adequate notice for the full panel to hear argument and decide that Class B Practitioners may participate in the case in that capacity and also testify in the case.

## IV. <u>QUALITY OF SERVICE</u>

We evaluated GTEFL's service during the third quarter of 1991. Of the 71 LEC standards measured, GTEFL failed to meet 12. The majority of these failures involved pay telephones. GTEFL has taken action to resolve these failures. The Company failed to meet the answer time rule for the business office six of the twelve months in 1991 and five of the first six months of 1992. Customers complained about getting a busy signal as well as the excessive holding time when calling the Company's Customer Billing Center.

During the evaluation performed during the third quarter 1991, we found that GTEFL has continued, on occasions, to downgrade out-of-service reports to a non-out-of-service status in violation of Rule 25-4.070(1), Florida Administrative Code. During a previous evaluation the Company made a commitment to take additional steps to prevent this from happening. The Company indicates that the necessary modification to the Trouble Analysis System (TAS) is scheduled for implementation during the second quarter of 1993.

Upon review, we find GTEFL's overall service quality to be adequate. However, the Company must take steps to ensure that the business office answer time standard is met. GTEFL is aware of the problem and appears to be taking corrective action. We find that the Company must modify its TAS to eliminate the capability of a repair person in the field to change out of service reports to a non-out of service condition.

## V. TEST YEAR

The Company utilized the historical period for the twelve months ending December 31, 1991, as adjusted for appropriate projected annualized rate changes from January 1, 1993, through December 31, 1993.

Upon review, we find that the test year is appropriate. The projected test year better matches revenues with cost of service and the investment required to provide customers service during the period following the order in this case. The use of only a historical 1991 test year would fail to capture the results of GTEFL's depreciation represcription in Docket No. 920284-TL, and implementation of FASB 106, accounting for post retirement benefits; both are significant events occurring in 1992 and 1993.

## VI. REPRESSION/STIMULATION AND FORECASTING

### A. 1993 BAU Repression and Stimulation

The 1993 business-as-usual (BAU) service forecasts filed by GTEFL are based on the rates and rate structures approved at the time of the rate proposal filing. Such forecasts are used to calculate the projected revenue requirement.

The 1993 BAU forecasts are used as the starting point for determining the Company's 1993 proposed forecasts. Since the Company proposes different rates and rate structures for 1993 than those which are currently approved, the 1993 BAU and 1993 proposed forecasts differ. The differences in the forecasts reflect the impacts of the proposed rate changes. However, the proposed rates and their associated forecasts are coordinated so that the total of all resulting revenues matches the revenue requirement.

The 1993 BAU forecasts include demand adjustments for rate changes for Private Line/Special Access Services and ECS, a service introduced in 1992. The conversion of toll, FX and 10XXX Service on certain routes to Extended Calling Service (ECS) during the first half of 1992 allows for calls at lower rates on these routes. The Company's 1993 BAU forecast for ECS reflects a demand response (increase in demand) associated with the price change. Likewise, approved price changes for Local Private Line, Interexchange Private Line and Special Access Services are reflected in the level of demand for these services.

Phase 1 implementation of most of the rates and restructure of Local Private Line Service, as approved in Order No. PSC-92-0738A-FOF-TL, issued in Docket No. 910967-TL on August 17, 1992, took place on December 1, 1992. The Company has included the impact of these known rate changes in its 1993 BAU forecast.

The Company's position is that all repression and stimulation estimates are based on economically correct procedures as well as appropriate levels of long-run price elasticity estimates.

1. <u>ECS Stimulation</u>

GTEFL projects 45% stimulation of Business ECS minutes-of-use and messages based on the 1992 change in price. Similarly, the Company projects a 45% stimulation for residential ECS messages based on the 1992 change in price. The current rates for Business ECS (per minute) and Residential ECS (per message) are 61% less than the current rates for intraLATA toll. Since ECS is converted toll, for the most part, this is an effective price decrease of 61%. The percentage price decrease (61%) and price elasticity estimate (-0.39) are key inputs into the calculation of the Company's stimulation estimate of 45%.

The Company's estimated ECS stimulation is based on the Company's intraLATA toll price elasticity estimate used in this rate proceeding. The Company's estimate of intraLATA toll price elasticity is -0.39. It is the Company's position that ECS was historically intraLATA toll traffic, and for that reason, the

Company used the intraLATA toll price elasticity to determine the effect of price changes for all toll traffic migrating to ECS.

Upon review, we find that there are several reasons why the Company's intraLATA price elasticity estimate should not be applied to ECS forecast development. First, the Company's projected level of ECS stimulation appears to be understated. Second, the Company's ECS price elasticity is adopted from the Company's Toll Elasticity Model, a composite model of residential and business toll service. However, the record is not conclusive as to whether GTEFL's residential and business ECS elasticities are indeed the same. Third, the toll elasticity estimate was developed using toll minutes data. While this elasticity may be useful in determining demand for services which are rated by minutes-of-use, residential ECS is rated by messages. Fourth, customers may regard toll service and ECS as qualitatively different services, and their demand response to price changes may vary accordingly. Again, we find that it is inappropriate to use the Company's intraLATA toll price elasticity to estimate ECS stimulation. We find that it is more appropriate to use actual stimulation levels to determine future stimulation levels.

We find that it is appropriate to employ the actual stimulation factors calculated from July 1991 toll demand data and July 1992 ECS demand data on approved ECS routes to derive appropriate 1993 BAU rate year ECS forecasts. These factors are: ECS Business Messages - 151%; ECS Business Minutes - 98%; and ECS Residential Messages - 60%. These factors were then used as inputs in determining the level of stimulation which would occur during the 1993 BAU rate year, given the Company's assumptions regarding the 1992 and 1993 toll service and ECS steady-state growth rates.

2. Private Line Services

The forecasts for Local Private Line Service, Interexchange Private Line Service and Special Access Service include demand adjustments using a price elasticity estimate of -0.284. Upon review, we approve GTEFL's estimates of stimulation and repression associated with the Company's private line and special access services.

B. Company's 1993 BAU Forecast

GTEFL argues that its 1993 BAU forecasts of access lines, toll messages, and minutes-of-use are reasonable based on the Company's analysis of the factors that affect the demand for each of these services. These factors include: attributes of the service, substitutable or complementary services, potential customers, and the economic environment.

We reviewed each forecast, including the forecast for ECS. Based on our analysis of the Company's assumptions, data, and results associated with each forecast, we agree with the Company's 1993 BAU forecasts for access lines, toll minutes-of-use, and access minutes-of-use.

The Company's forecast of ECS messages and minutes is based on the conversion of 1991 toll, 10XXX, and FX minutes-of-use and messages to ECS residential and business minutes of use and messages. The Company's ECS forecasts were adjusted for steady state growth to the 1993 test year, using estimated changes in holding times, and the impact of the effective 61% price reduction. The ECS forecast reflects the impact of the price reduction through the use of the Company's intraLATA toll price elasticity estimate, which is -0.39.

We do not find the use of the Company's intraLATA toll elasticity estimate for determining ECS demand to be appropriate. The Company's toll elasticity estimate underestimates the actual stimulation levels which have occurred during July 1992 in GTEFL territory.

We find the Company's 1993 BAU forecasts of ECS minutes and messages are too low and approve forecasts based on actual traffic data as set forth below.

| Approved 1993 ECS Annual Forecasts | |
|---|---|
| Service | Approved Forecast |
| Business ECS (Messages) | 78,885,420 |
| Business ECS (Minutes) | 190,418,770 |
| Residential ECS (Messages) | 60,278,052 |
| Pasco Business ECS (Messages) | 1,886,148 |
| Pasco Business ECS (Minutes) | 4,514,544 |
| Pasco Residential ECS (Messages) | 2,154,912 |

C. Company's 1993 Proposed Repression/Stimulation Forecast

The inclusion of repression and stimulation can significantly influence the estimate of the quantities demanded for a particular service, which, in turn, can markedly affect the revenue effect of a proposed price change. With rate of return regulation, repression and stimulation can materially affect the magnitude of rate changes needed in other services to attain the revenue requirement. In addition to reflecting the impacts of repression and stimulation in determining test year revenues, the Company also employed elasticities to estimate demand responses.

Each service category for which GTEFL has estimated repression or stimulation will be addressed separately. The affected services are listed below:

1. Residential Access Line Repression
   a. Repression
   b. Class of Service Migration
2. Business Access Lines
3. Expanded ECS and Countywide Calling
4. IntraLATA Toll Stimulation
5. InterLATA Switched Access Stimulation
6. Non-Published and Non-Listed Telephone Numbers
7. Directory Assistance

1. Residence Access Lines

GTEFL argues that its proposed increases in basic exchange service rates and the introduction of an additional message rate option for residential customers will cause both migration to lower priced basic exchange classes of service and repression of access lines. Access line repression and class of service migration are treated in the two sub-sections which follow.

a. Repression

The Company's 1993 proposed forecast for residential local exchange lines includes a repression adjustment based on GTEFL's proposed residential local exchange rate increases shown in MFR Schedule E1a. The Company's repression adjustment to its residential switched access line forecast is based on a residential price elasticity estimate of -0.026. This estimate was developed by Wisconsin Bell in its filing before the Wisconsin Public Utility Commission in Docket No. 6720-TR-103. We find that the Company should be commended for attempting to determine the impact of residential access price on demand for the service.

GTEFL used an estimate from Wisconsin due to the lack of Florida-specific data. The Company argues that elasticities are relatively invariant across different geographies for products with similar attributes. GTEFL notes that the general consensus within the industry is that the true price elasticity for residential access lines is probably within the range of -.01 and -.06. In addition, GTEFL contends that Florida-specific penetration rates applied to a residential penetration study conducted by National Economic Research Associates, Inc (NERA) results in a price elasticity estimate very close to -0.026.

We agree that residential access price elasticities from other geographic areas may be useful when it is not possible to develop a price elasticity estimate for the immediate geographic area. However, we find that the industry's range of residential price elasticity estimates (-.01 to -.06) is too wide to accept the premise that residential price elasticity is invariant across different geographies. The industry-acceptable range of residential elasticities, as reported by the Company, is so wide that the choice of which such elasticity to use can have a substantial impact on GTEFL's access line forecasts and access line revenues. Moreover, the Company did not study the demographic or economic similarities and differences between the Wisconsin Bell service area and the GTEFL service area in determining its forecast. We find that such data is critical to calculating an accurate residential access price elasticity.

In the residential penetration study conducted by NERA, it was shown that there are a number of demographic and economic factors which determine price elasticity. We find that the Company's residential price elasticity estimate, based on Wisconsin Bell data, may not reflect the demographic and economic conditions of the GTEFL serving area. For that reason, we find that the Company's estimate is not appropriate for use in determining residential access line repression for GTEFL.

We reviewed the NERA study to consider the Company's assertion that Florida-specific penetration rates when applied to a matrix in the study result in a price elasticity estimate very close to -0.026. The Company asserts that--using a time-adjusted price for residential service, and an estimated current penetration rate of 93%--Table 2 of the NERA study would indicate the residential access price elasticity estimate for Florida is less than -0.0378, probably in the -0.01 to -0.02 range. We agree that the table would indicate that the Company's estimate falls below -0.0378. However, this conclusion is too general. Moreover, the numerical results of the NERA study are not conclusive in this case, since the study is based on old data from 1979 and 1980.

We find that the Company has not provided a residential price elasticity estimate based on credible data. Without a reliable estimate, we find we must err on the side of caution. Therefore, a residential access price elasticity of 0.0 shall be used in this proceeding.

b. Class of Service Migration

Class of service migration refers to customers shifting to a basic exchange class of service which has a lower monthly rate, exclusive of usage charges. The Company assumed that its proposed price increases would cause 10% of the flat rated residence lines to migrate to measured rate service. Further, the estimated migration was split equally between the two proposed measured rate options. These assumptions were based on results in GTE's Wisconsin territory and also supported to some degree by GTE's experience in Michigan.

We accept that class of service migration is a sound concept. However, the revenue requirements determination in this proceeding is such that significant basic exchange rate increases will not occur. This fact, together with our determination that a new message rate option is inappropriate, means that the catalysts for class of service migration are not present in this case.

Moreover, the specific methodology used by the Company to estimate class of service migration is suspect. It is questionable whether the Wisconsin experience which GTEFL is using as a proxy for class of service choice in Florida is an analogous situation. First, there was no existing message rate option in the Wisconsin case, whereas there is an existing message rate option in Florida. Second, subscription rates for message rate options are influenced by a) the economic crossover between flat rate and message rate alternatives and b) the distribution of account average calling rates. GTEFL considered only the economic crossover between flat rate and message rate alternatives. This ignores the possibility that the average calling rates and associated customer-to-customer variation may differ between the two jurisdictions.

In summary, we find that the pricing impetus for class of service migration has not occurred in this case. Further, even if the Company's rate proposals were adopted, GTEFL's methodology for estimating migration among classes of service needs further refinement. For these reasons, we find it inappropriate to consider class of service migration in estimating 1993 proposed billing units and revenue.

2. Business Access Lines

The Company's 1993 proposed forecast for business local exchange lines includes a repression adjustment based on GTEFL's proposed business local exchange rate increases shown in MFR Schedule E1a. The Company's repression adjustment to its business local exchange line forecast is based on a business price elasticity estimate of -0.017. This estimate is from the National Telecommunications Demand Study (NTDS), prepared by an industry consortium. This estimate was first presented at the NTDS conference in February 1992. GTEFL used the NTDS business price elasticity estimate in this rate proceeding because the Company was unable to develop a supportable estimate of its own.

We find that the Company's business repression estimate is not appropriate for two reasons: 1) the transferability of the NTDS study to Florida has not been clearly established, and 2) The Company did not apply each of the applicable service-specific elasticity estimates resulting from the NTDS study to determine its forecasts for business access lines. Therefore, we find it appropriate that no repression or stimulation of business access lines be recognized in this proceeding.

3. Expanded ECS/Countywide Calling

Since the proposed routes were historically intraLATA toll, the Company asserts that the intraLATA toll price elasticity should be used to estimate the stimulation associated with Expanded ECS/Countywide Calling. We disagree.

The actual stimulation observed on existing ECS routes for the most recent data month in this proceeding is greater than that estimated by GTEFL using the intraLATA toll price elasticity. Residential and business elasticities may differ, particularly since residential customers pay for ECS calls on a per message basis, and business customers pay for ECS calls on a per minute basis. Since the intraLATA toll model was developed for a composite of residential and business minutes, no price elasticity distinction between residence and business is possible. Local and toll price elasticities may differ due to differences in dialing patterns and customer perceptions of "local" versus "toll" calling.

Accordingly, we find that the actual percent stimulation experienced on existing ECS routes is a more reasonable basis for estimating stimulation on the proposed routes, as compared to the Company's approach of using the intraLATA toll price elasticity. Thus, we approve the following stimulation estimates: residence messages - 60%; business messages - 151%; business minutes - 98%.

4. <u>IntraLATA Toll</u>

The Company based its intraLATA toll MOU stimulation estimate on a price elasticity estimate of -0.39.

Staff witness Dismukes presented in his testimony an intraLATA toll price elasticity estimate of -0.51, based on an alternative toll model.

Witness Dismukes expressed two concerns regarding the Company's demand analysis. First, the Company used different modeling for intraLATA toll and interLATA switched access demand analyses. Second, the Company did not use model specifications (the variables and the functional form of the equation) which are traditionally employed in the literature.

The Company filed rebuttal testimony by witness Trimble to support its interLATA and intraLATA toll elasticity estimate and to identify flaws in witness Dismukes' modelling assumptions, specification, and results. The Company also filed rebuttal testimony by witness Taylor. Witness Taylor's testimony attempted to show that witness Dismukes' model is imprecise and lacking in theoretical support, and to show that witness Dismukes' testimony misrepresents witness Taylor's prior telecommunications demand work.

We reviewed the evidence presented in the case to determine whether previous research regarding intraLATA elasticity estimates clearly supports a defined price elasticity estimate range. We also considered the theoretical soundness and results of both the Company's and witness Dismukes' intraLATA toll price elasticity models.

We find that the literature and studies provided in support of the Company's and witness Dismukes' elasticity estimates do not clearly determine which elasticity estimate is more accurate or reasonable.

The Company utilized a two-stage budget specification model to develop its intraLATA toll price elasticity estimate. The first stage equation determined the demand for both MTS and WATS intraLATA toll calls combined. The second stage equation estimated the proportion of MTS and WATS calls.

Witness Dismukes used a simpler approach to modelling intraLATA toll demand. His model estimated the price elasticity directly, in a single equation.

We considered the theoretical soundness of both the Company's and witness Dismukes' intraLATA toll price elasticity models. GTEFL's primary concern seems to be the existence of the lagged variable in the specification by witness Dismukes, used to capture dynamics, if present. The Company's price elasticity takes into account the impact of a price change on demand, but only such impact that is realized within a year of the price change. It does not take into account the impact, however small, that a change in price would have on demand after one year. It is intuitively plausible that individuals may exhibit a delayed response to a change in toll price, and that some individuals may require a period of greater than a year to adjust to a change in rates. We find that it is appropriate to consider this phenomenon when modelling intraLATA toll demand.

Another measure which may be used to compare the Company's and witness Dismukes' model specifications is the simplicity of the specification. We find a simple, yet complete, approach to modelling demand is preferred to a more complex approach and that the more esoteric approaches to demand modelling, used in lieu of a simpler and more traditional approach, unnecessarily removes many of the intuitive underpinnings of the modelling effort. It is our view that witness Dismukes' model represents the simpler approach in that it provides a price elasticity estimate directly, unlike the Company's model, which involves two separate equations.

Witness Taylor states that witness Dismukes' model includes a lagged dependent variable which is not statistically significant and, as a result, the precision of his long run estimate is suspect.

The Company stated that it detected the presence of autocorrelation in the error term of the model using the Durbin-h test and a Lagrange-Multiplier test. Autocorrelation refers to a situation where there exists a consistent pattern in the error term of the model over time. The presence of autocorrelation violates one of the basic assumptions for econometric models. Witness Dismukes performed several tests, as well, to detect serial autocorrelation in his model, and found none. We do not find the evidence regarding autocorrelation to be compelling, and cannot say for certain whether or not it truly represents a flaw in witness Dismukes' model.

During the hearing, the Company asked witness Dismukes if he knew what price elasticity would result from assuming a coefficient of zero for the lagged dependent variable in his intraLATA toll model. In essence, this would have the effect of dropping the variable out of the model. Witness Dismukes responded that he did not know what price elasticity would result from dropping the lagged variable. The Company asked him whether the price elasticity would be -0.39, the same as the Company's estimate, subject to check. Witness Dismukes accepted the Company's -0.39 estimate with this condition. However, witness Dismukes re-ran the model without the lagged variable, and submitted that the resulting price elasticity was -0.55. Thus, dropping the lagged dependent variable from witness Dismukes' model does not appear to appreciably change the equation's overall price elasticity estimate, according to witness Dismukes.

Upon review, we find that the precision of the price elasticity estimate for intraLATA toll service is dependent upon proper specification of the model. Both the Company and witness Dismukes share much common ground in terms of the variables to include- price, income, and seasonality. However, witness Dismukes' model includes, in an explicit fashion, the long-run impact of toll price changes on the demand for intraLATA toll, thereby incorporating dynamics into the model, which the Company failed to do. We approve the use of a point price elasticity estimate of -0.51 in this proceeding in order to determine the level of GTEFL's intraLATA toll stimulation.

5. InterLATA Switched Access

The Company based its interLATA switched access MOU stimulation estimate on a price elasticity estimate of -0.41.

Staff witness Dismukes presented in his testimony an interLATA switched access price elasticity estimate of -0.59, based on his alternative toll model.

We reviewed the evidence to determine whether previous research regarding interLATA switched access elasticity estimates clearly supports a reasonable price elasticity estimate range. We also considered the theoretical soundness and results of both the Company's and witness Dismukes interLATA switched access price elasticity estimates.

We find that the literature and studies provided in support of each party's elasticity estimate do not clearly determine which estimate is more accurate or reasonable.

The Company used two econometric models and a time series model to derive the forecasts. The results of these three models were combined on a weighted average basis to produce a final interLATA switched access elasticity estimate.

Witness Dismukes used a simpler approach to modeling interLATA switched access demand. The model he used was a Koyck specification, similar to the one used in his intraLATA model. His model estimated the price elasticity directly, in a single equation.

The Company contends that witness Dismukes' model is misspecified. GTEFL witness Taylor argues that specifying income on a per capita basis is in conflict with the dependent variable, which is specified as an aggregate quantity. Witness Taylor states that properly specifying the equation requires that the variables agree with each other - they must either all be per capita, or all be in levels. This lack of agreement between variables, known as noncointegrated variables, can affect the estimates produced by the model. We agree that noncointegrated variables can effect the model's estimates, and reviewed the associated diagnostic tests for further evidence. The Company conducted a Dickey-Fuller test, which according to witness Taylor, positively determined the presence of cointegration problems. Witness Dismukes also ran the Dickey-Fuller test on his model, and the results of the test showed that cointegration problems were not present in the model. We do not find the results of either test compelling, and it is unclear whether noncointegrated variables have impacted the results of witness Dismukes' model.

Witness Trimble also noted that the Company tested for the presence of dynamics in its model, and found dynamics to be statistically insignificant. Dynamics is the impact of one period's demand on following periods' demand. However, the Company and witness Dismukes presented literature with citations which show a lack of agreement among experts regarding whether the presence of dynamics is a testable property of an equation. Again, we do not believe the evidence is compelling, either in the direction of the Company or Mr. Dismukes.

We find that witness Dismukes' model specification is a more common approach to estimating interLATA switched access demand than that used by the Company. In addition, witness Dismukes' model includes, in an explicit fashion, the long-run impact of toll price changes on the demand for interLATA switched access, thereby incorporating long-run dynamics into the model, which it appears that the Company failed to do. Thus, we approve the use of a price elasticity point estimate of -0.59 in this proceeding in order to determine the level of GTEFL's interLATA switched access stimulation.

6. Non-Published and Non-Listed Numbers

GTEFL is proposing that rates for non-published (non-pub) and non-listed (non-list) numbers be increased. The price elasticity used by the Company for these services is -0.035.

We accept the Company's use of the National Telecommunications Demand Study (NTDS) results for non-pub and non-list services. The NTDS elasticities are conservative and in line with what one would expect. The -0.035 figure is within the range computed for California which, like Florida, is experiencing a large growth rate. We find GTEFL's estimates of repression for non-published and non-listed services to be appropriate.

7. Directory Assistance

GTEFL is proposing that rates for toll and local directory assistance (DA) be increased, and the number of free local DA inquiries be decreased from three per billing cycle to two per billing cycle. There is no free call allowance for toll DA. The Company's estimated price elasticity for both local and toll DA is -.29.

GTEFL did not estimate separate elasticities for local DA and toll DA; rather, the Company estimated a total DA price elasticity. We find that this combined modeling approach seriously skewed the results. There are few, if any alternatives to toll DA. Thus, demand for toll DA should be fairly inelastic, i.e., demand would continue to be high in spite of a large price increase. On the other hand, one would expect local DA to be rather elastic due to the availability of such alternatives as telephone directories.

We find that using the -0.29 figure for adjusting forecasted demand for local DA and toll DA is inappropriate, primarily because of the dilution of effects resulting from combining local DA data with toll DA data. Because of the scarcity of alternatives for toll DA, the elasticity for toll DA should be approximately 0. By setting the value for toll DA at 0, we derived a more realistic elasticity for local DA of -0.39. This estimate is higher than the Company's estimate and much closer to the range of -0.40 to -0.5 estimated in other research and cited by the Company as support for its figure. Therefore, we approve a -0.39 elasticity estimate for local DA and a 0.0 elasticity figure for toll DA.

## VII. RATE BASE

Rate base is a mathematical calculation based on other decisions made in this proceeding. The Company proposed intrastate rate base as filed is $1,901,826,000. The Company, in its revised filing of September 6, 1992, proposed additional adjustments to the amount filed which result in a rate base of $1,915,517,000.

OPC proposes adjustments to the amount filed on September 6, 1992, which result in an intrastate rate base of $1,899,440,000.

We have found certain changes to the amount filed on September 6, 1992 to be appropriate. These changes result in an intrastate rate base of $1,902,319,000.

### Rate Base

| | | |
|---|---|---|
| Revised Intrastate Test Year Rate Base filed on September 6, 1992 | | $ 1,915,517,000 |
| Commission Adjustments: | | |
| Working Capital Averaging | | ($ 11,328,000) |
| 1439 Accounts | | ( 8,897,000) |
| Interest Bearing Accounts | | 60,000 |
| Directory Operations | | 13,090,000 |
| Remove Audit Adjustment | | ( 11,405,000) |
| Materials and Supplies | | ( 363,000) |
| PIU Audits: | | |
| Plant | $1,867,000 | |
| Reserve | (498,000) | |
| Working Capital | (5,978,000) | |
| Total Adjustment | | 1,451,000 |
| GTES Purchases: | | |
| Plant | ($1,182,000) | |
| Reserve | | 171,000 |
| Total Adjustment | | ( 1,011,000) |
| Post retirement Benefits: | | |
| Plant | ($ 119,000) | |
| Reserve | ( 15,000) | |
| Working Capital | 325,000 | |
| Total Adjustment | | 191,000 |
| Deferred Post retirement Benefits Expense | | 5,013,000 |
| Total Adjustments | | ($13,198,000) |
| Intrastate Test Year Rate Base | | $1,902,319,000 |

A. Plant in Service

The appropriate amount of intrastate plant in service is a mathematical calculation or a fall-out issue based on other decisions in this case. The intrastate plant in service as filed is $2,680,644,000. Due to our decision regarding the PIU Audits, Intrastate Plant in Service is increased by $1,866,710. Because of our decision regarding GTES purchases, intrastate plant in service is decreased by $1,182,011. Our decision regarding post retirement benefits will decrease plant in service by $118,692. As a result of these decisions, we find the appropriate amount of intrastate plant in service to be $2,656,871,000 (rounded).

B. Depreciation Reserve

The test year depreciation reserve shall be adjusted to reflect the impact of the stipulation reached in Docket No. 920284-TL and also to reflect the approved adjustments in connection with the PIU Audit (an increase of $498,065), GTE Supply Purchases (a decrease of $171,392), and Post Retirement Benefits (which increases the reserve by $15,472). The appropriate amount of intrastate accumulated depreciation is $801,459,000 for the 1993 test year.

An adjustment was proffered by OPC concerning the Company's handling of Order No. 25378, which required that reserve allocations be made from the accumulated bottom line reserve amount associated with job development investment tax credit, and bill and keep of interLATA toll monies to the reserve for inside wire as of January 1, 1991. Upon review, we find that the Company has complied with Order No. 25378, issued in Docket No. 900605. Therefore, no adjustment is necessary.

C. Construction Work in Progress

It is GTEFL's position that the appropriate amount of construction work in progress to use for rate setting purposes as presented in the Company's Revised Direct Testimony is $59,632,498. Based upon our decision regarding PIU audits, an adjustment of $88,000 needs to be made to this figure. Thus, the appropriate amount of intrastate construction work in progress for the test year is $59,720,498.

D. Working Capital Allowance

The intrastate test year working capital allowance as reflected in GTEFL's revised direct testimony is $697,458. The allowance was based upon year-end 1991 cash working capital accounts plus average projected 1993 material and supplies. GTEFL was not able to forecast all of the smaller items within the balance sheet to arrive at a projected 1993 working capital allowance. Therefore, a year-end 1991 working capital was used as a surrogate for what the average 1993 working capital would have produced if all of the various components of the balance sheet had been projected to 1993.

OPC proposes an adjustment to reflect the working capital at a 13-month average amount. In addition, OPC asserts that working capital should be reduced by $4,719,899 because the Company has inappropriately assigned the account identified as Advance Billing/Payments to intrastate jurisdiction. OPC asserts that the Company cannot identify any amounts in this account which related to other than intrastate services. Therefore, it would be inappropriate to separate a portion of this account to the interstate jurisdiction. However, the Company contends that when it advance bills, it has an "obligation or a liability to provide that service in the month following the month that we've recorded the revenues. So we establish a liability for that amount".

There is no one account that is specific interstate or intrastate for subscriber line charges, but there are amounts within the account that are interstate. The subscriber line charges are an interstate rather than intrastate charge. GTEFL contends that the account for which OPC proposes an adjustment does contain intrastate amounts. Upon review, we find that it would be inappropriate to remove the intrastate allocated portion from working capital.

As previously discussed, the Company asserts that year-end 1991 working capital is representative of what a projected average 1993 working capital allowance would be. However, we are concerned that the year-end working capital is not representative of average 1991. We find that average 1991 would be more representative of average 1993, than year-end 1991. As Account 4080 - Other Taxes Accrued - demonstrates, the year-end liability for other taxes is $4,516,401, and is not representative of the average balance of $19,262,301 for the account. The typical pattern for this account is to continually increase until payment of the taxes in November. While the Company asserts that there is an offsetting entry to some asset account in order to allow that liability account to drop so dramatically and that as long as the Company picks a constant time period, it has a constant relationship between the assets and the liabilities.

We agree that a constant relationship will result if we look at a constant time period. However, we find that calculating working capital using the average negates the sometimes drastic monthly fluctuations and results in a more representative picture of the Company's financial position. Thus, we find that the Company's adjustment to increase cash working capital to reflect it at year-end amounts shall be disallowed. The resulting reduction to intrastate working capital is $11,328,020.

Having decided that an average working capital allowance shall be used, further adjustments are necessary. Accounts 1439.71 and 1439.78 were not adjusted in the Company's filing because the year-end balance was zero. Account 1439.71 reflects deferred charges associated with the Winning Connection II reorganization, while Account 1439.78 reflects the deferred charges associated with CANTV/VENWORLD. The charges in Accounts 1439.71 and 1439.78 are non-recurring costs and shall therefore be removed. The year-end balance of accounts 1439.65, 1439.70 and 1439.95 were removed; the adjustment for these accounts needs to be reflected at the average. Account 1439.65 reflects deferred charges associated with the Contel merger integration costs; Account 1439.70 reflects deferred charges associated with Winning Connection II reorganization; and Account 1439.95 reflects the general ledger adjustment needed to balance. All amounts are non-recurring and shall be removed. The Company removed $675,645 from current assets for the year-end balance of these accounts. The average balance of these five accounts totals $12,001,575. Therefore, current assets shall be reduced by an additional $11,325,930. The reduction to intrastate working capital is $8,896,521.

As a part of its revised direct filing, GTEFL made several adjustments. We agree with the Company's removal of accounts 1160, 1200 and 1210 in that these accounts are interest bearing or reflect earnings on other investments which are generally excluded from the working capital calculation. However, the Company removed the year-end balance. We have decided that an average working capital is appropriate; thus, the average balances need to be removed. The average balances for these accounts total $45,985. The Company removed $122,200, therefore, working capital shall be increased by a total of $76,215. The increase to intrastate working capital is $59,865.

One additional adjustment is necessary due to averaging. This adjustment is addressed in our analysis of Directory Revenues. The Company's adjustment to decrease working capital by $17,934,995 shall be adjusted to the average amount of $1,270,275. This results in an increase to working capital of $16,664,020. The increase to intrastate working capital is $13,090,142.

As a part of its revised direct filing, GTEFL made adjustments removing accounts 1190, 1410, 4010, and 4310 from the working capital calculation. The activity in account 1410 represents receivables from employees associated with an advanced issue during a payroll system conversion and is be carried on the books until such time as those employees retire; these charges are typical items which occur in the normal course of utility business. The charges in account 4310 represent liabilities associated with deferred compensation and are normal charges for a business with deferred compensation plans. The type of charges in accounts 1190 include charges from transactions involving payroll deductions for employee store payments, billings for accounts receivable, intraLATA settlements, and cash receipts and collections. Account 4010 involves charges for payroll for tax deductions, accounts payable activity, uninvoiced receipts accrual, intraLATA settlements, bill receipts and payments, and sales and use taxes. Upon review, we find that these are expenses which occur in the normal course of utility business and should not be removed. The Company made an adjustment to increase working capital by $14,518,957 for removal of these accounts; this adjustment shall be disallowed. The decrease to intrastate working capital is $11,404,644.

Several additional adjustments approved in this Order impact the working capital calculation. We have found it appropriate to decrease the amount of projected 1993 material and supplies to be included in the intrastate working capital calculation by $363,005. Due to our decision regarding PIU audits, intrastate working capital is decreased by $5,978. Because of our decision regarding Post Retirement Benefit expense, intrastate working capital is increased by $325,035. Our decision regarding Deferred Post Retirement Benefits will increase intrastate working capital by $5,012,865. Thus, the final intrastate working capital allowance shall be a negative $12,835,817.

E. Material and Supplies

The Company's revised direct filing included $14,115,494, intrastate, of material and supplies in the working capital calculation. This amount was based upon average 1991 material and supplies adjusted to year-end 1991 level of material and supplies plus an adjustment to arrive at projected average 1993 material and supplies.

The Company agrees that if an adjustment is made to the level of 1991 plant in service and 1991 material and supplies, the Company's adjustment projecting material and supplies to 1993 levels needs to be recalculated. The Company calculated the ratio of 1991 year-end material and supplies to adjusted 1991 year-end plant in service. The resulting ratio of .54% was applied to projected average 1993 plant in service to arrive at projected average 1993 material and supplies. The Company compared projected 1993 material and supplies to 1991 year-end material and supplies, and an adjustment was made to reflect the difference in material and supplies. The Company's adjustment increased material and supplies by $1,054,983.

Based upon our decision regarding material and supplies from GTE Supply, the appropriate balance of projected 1993 plant in service differs from the Company's projection. The ratio of .54%. was applied to the adjusted average 1993 plant in service balance to arrive at average 1993 material and supplies. This was compared to 1991 year-end material and supplies to arrive at the increase to material and supplies for 1993. The increase to 1993 material and supplies is $558,278. This yields a reduction of $462,132 to the balance of material and supplies as filed in the revised direct filing on September 6, 1992. The intrastate reduction to material and supplies is $363,005. The resulting intrastate material and supplies for use in the test year working capital calculation is $13,752,489.

F. Working Capital Adjustments for Directory Operations

GTEFL has removed the accounts receivable related to its change in directory revenue accounting. Due to our decision regarding directory advertising revenues below, and our decision to reflect working capital on an average basis, we find that no further adjustment shall be made to working capital.

## VIII. COST OF CAPITAL

### A. Cost of Common Equity

GTEFL asserts that 13.6% is the appropriate cost of common equity for use in this proceeding. The Company contends that this midpoint equity return reflects investor expectations as determined by properly applied Risk Premium and CAPM analysis. The Company did not utilize a DCF analysis. It is the Company's position that under current market conditions, the DCF model artificially under values equity costs by failing to accurately reflect long term growth and by not accounting for changes in the price-earnings ratio.

OPC asserts that the appropriate cost of equity has a range of 11.00% to 11.60% with a midpoint of 11.30%. OPC argues that testimony to the contrary offered by GTEFL must be weighed against the Company's own position that cost of capital analysis is an art and not a science. OPC contends that GTEFL relies on the "informed expert judgement" of its witness and asserts that OPC's witness is more credible.

FCAN mirrors OPC's position that the appropriate cost of common equity is 11.3%. FCAN asserts that GTEFL does not recognize that the economy is in a recession and argues that this fact calls for a downward adjustment. FCAN also echoes GTEFL's description of the process as an art, and not a science.

We have reviewed the models used, the assumptions made, and the results tendered by the parties. We also are aware of the ROE's recently approved in the Centel Rate Case Stipulation and the United Rate Case. We accept the view---espoused by each party who took a position on this issue---that this is an art and not a science. Based upon the foregoing, we find the appropriate cost of equity for ratemaking purposes to be 12.2%.

Traditionally, our practice has been to set an appropriate ROE and to establish a 100 basis point range above and below this midpoint. This creates a zone of 200 basis points within which the Company's earnings are considered reasonable. We find this to be appropriate in the instant case. Thus, GTEFL shall have an approved range of 11.2% to 13.2%.

B. Equity Ratio

The Company asserts that an equity ratio of 58.25% is reasonable when compared with the range of common equity ratios maintained by both of the proxy groups employed in its analysis. It is the Company's view that equity ratios in the future are expected to be even higher. For example, the seven Regional Bell Holding Companies (RBHCs) are projected to have equity ratios averaging 58.8% in 1993 and up to 61.4% for the period 1995-1997. The Company concludes that because the telephone utilities are facing increasing risk, such companies need to increase equity ratios.

OPC asserts that an equity ratio of 54.9% of investor capital in 1992 is appropriate and will allow the Company to attract capital at a reasonable rate. OPC argues that a higher equity ratio, at a given rate of return, provides for greater cash flow and greater absolute dollars of earnings - at a cost to the ratepayers. Moreover, OPC does not accept that GTEFL faces significant competitive risks. Thus, OPC concludes that the Company does not need a higher equity ratio.

The Company has presented evidence that there is no specific optimal equity ratio, but rather there is a range of reasonableness. We agree.

In our consideration of the capital structure treatment of nonutility investments, we found it appropriate to remove nonregulated investments from the capital structure 100% from common equity. This reduces the equity ratio to 57.0% of investor capital. This adjustment was made because we found that GTEFL would increase its equity ratio to compensate for the additional risk that unregulated activities bring to the Company.

Additional adjustments, which decrease GTEFL's equity ratio to 56.42% of investor capital, are also appropriate. A significant amount of the additional change is due to a specific adjustment to short-term debt which is discussed in detail in our consideration of the overall weighted cost of capital.

We find that GTEFL's financial integrity will not be hindered if the Company's equity ratio for ratemaking purposes is reflected at 56.42% of investor capital. Although a 56.42% equity ratio is below the minimum of 58% suggested by Standard and Poor's for AA rated companies, we find that because Standard and Poor's looks at qualitative as well as quantitative factors, a particular benchmark does not have to be reached to maintain a given bond rating. For example, U.S. West, which maintains a AA- bond rating has an equity ratio of 56.0%.

In this regard, we note that GTEFL has faired better than the average RBHC in many ways. GTEFL has a lower debt to total capital ratio, higher pretax interest coverage, and higher net cash flow as a percentage of long-term debt. Moreover, GTEFL's access line growth is higher than the average for the RBHC's, which correlates to potentially greater increases in revenue for GTEFL than for the RBHC's. We find that GTEFL is in a better position than the average comparable company and therefore is capable of supporting an equity ratio which is 1.48% below the July, 1992, RBHC average of 57.9%. Based on the foregoing, we find that 56.42% is the appropriate equity ratio for ratemaking purposes.

C. Cost of Short Term Debt

The Company, in its revised capital structure, records short-term debt at a 5% cost rate. OPC concurs. The Company relies on the commercial paper rate forecast in the DRI/McGraw Hill Review of the U.S. Economy to estimate the cost of short-term debt for the 1993 test year. We find it appropriate to reference a more current edition of this periodical to establish the appropriate 1993 short-term debt rate. The September 1992 edition of DRI's Review of the U.S. Economy shows the 1993 three month commercial paper rate forecast to be 4.28%. Upon review, we find that the appropriate cost of short term debt for the test year is 4.28%.

D. Deferred Income Taxes

An intrastate deferred tax balance of $311,120,000 is reflected in Company witness Johnson's revised testimony. Based on our decisions regarding non-regulated investments and capital structure, a reduction of $6,027,000 must be made to reflect the accumulated deferred income tax effect of those items. Therefore, we find that deferred taxes in the amount of $305,093,000 shall be included in the capital structure.

E. Investment Tax Credits

In its filing, the Company's capital structure reflects an intrastate deferred investment tax credit (ITC) balance of $12,151,000 (rounded), after reconciliation. A deferred investment tax credit balance of $11,782,000 is reflected in Company witness Johnson's revised testimony. Based on our decisions regarding non-regulated investments and capital structure, a reduction of $246,000 must be made to reflect the effect on deferred investment tax credits related to those items. Therefore, deferred investment tax credits in the amount of $11,536,000 shall be recorded in the capital structure.

F. Non-Regulated Investments

OPC asserts that GTEFL's investment in GTE Communications Corporation (GTECC) should be removed 100% from common equity. OPC contends that this is consistent with Commission practice to remove the investment in nonregulated subsidiaries totally from the common equity portion of the capital structure.

GTEFL asserts that its investment in GTECC should be removed from the capital structure pro rata from investor sources. It is the Company's position that funds used to finance nonregulated investment cannot be traced to their origin. Therefore, GTEFL concludes that it is inappropriate to adjust common equity for all of the nonregulated investment while all components of investor capital could have been utilized. The Company argues that nonregulated investment should be treated similar to the rule which governs the parent debt adjustment. Rule 25-14.004, Florida Administrative Code provides that the parent's investment in the subsidiary "shall be considered to have been made in the same ratios as exist in the parent's overall capital structure."

We find that the intent of the parent debt adjustment rule and the treatment of nonregulated investments are unrelated. The intent of removing nonutility operations 100% from the common equity of a utility is to recognize the increased risk that unregulated investments bring to regulated companies.

We agree with the Company that the investment in nonutility assets cannot be traced directly to equity funds, however we find that the presence of GTECC in GTEFL's capital structure increases GTEFL's cost of capital. The cost of capital is higher because GTE has to maintain a higher equity ratio due to the riskier unregulated GTECC investment.

Company witness Hanley asserts that the equity ratio is an indicator of financial risk and is within a range that reflects a company's present and expected level of business risk. He also contends that GTEFL would increase its equity ratio in response to a rising level of business risk, and that unregulated endeavors tend to be more business risky than regulated entities. OPC witness Cicchetti testifies that an investment in an unregulated inside wire or CPE business would increase the business risk of a local exchange company. OPC witness DeWard and Company witness Johnson consider GTECC a more risky investment than GTEFL's local regulated telephone service.

If the principles as presented by witness Hanley are followed, GTEFL will increase its equity ratio in response to increasing business risk. A higher equity ratio, all else being equal, increases revenue requirements. The regulated telephone utility ratepayer, however, should only pay for the cost of local exchange service. Therefore, the nonregulated operations of GTECC shall be removed 100% from common equity to balance the increased equity ratio GTEFL must maintain due to the riskier investment. This adjustment will decrease GTEFL's test year equity ratio from 58.25% to 57.00% of investor sources.

G. <u>Weighted Average Cost of Capital</u>

The Company has proposed additional adjustments to the MFR filing of June 18, 1992 reflecting the changes incorporated in the Company's answer to OPC Interrogatory 119 as shown on revised MFR Schedule D-1 filed September 6, 1992. The resulting weighted average cost of capital is 9.60%.

OPC proposes using the ROE of 11.30% instead of the ROE recommended by GTE of 13.60%, adjusting the filed amount to adjust the equity ratio to 55%, removing non-regulated investment from equity and adopting the changes to capital as filed in response to

OPC Interrogatory 119. Each adjustment is addressed in the relevant section of this Order. OPC asserts that the weighted average cost of capital is 8.42%.

Based on our decisions set forth at the relevant sections of this Order regarding rate base, ROE, cost of short term debt, investment tax credits, deferred income taxes, removing non-regulated investments from equity capital, adopting the changes to capital as shown on revised MFR Schedule D-1 filed September 6, 1992, and adjusting the Company's adjustments to the capital components as described below, the resulting weighted average cost of capital is 8.82%. The appropriate capital structure is as follows:

| COMPONENT | WEIGHT | COST RATE | WEIGHTED COST OF CAPITAL |
|---|---|---|---|
| Equity | 46.77% | 12.20% | 5.71% |
| Preferred stock | 2.36% | 7.09% | 0.17% |
| Short term debt | 3.11% | 4.28% | 0.13% |
| Long term debt | 30.72% | 8.84% | 2.72% |
| Investment tax credits | .61% | 10.51% | 0.06% |
| Customer deposits | .39% | 8.00% | 0.03% |
| Deferred income taxes | 16.04% | 0.00% | |
| **TOTAL** | 100.00% | | 8.82% |

With the exception of Company Adjustment 43, Deferred Tax on Intercompany Transactions, all of the Company's adjustments to capital based on rate base adjustments in the original filing and the revised filings are made pro rata to all capital components. We find this to be inappropriate. The Company has already forecasted all components of capital to the 1993 levels with the exception of short term debt and this forecast should match the Company's forecast of the 1993 rate base. The forecast, as presented by the Company, matches the 1991 rate base and is adjusted pro rata to 1993 levels. We find that the Company is in error matching 1993 capital to the 1991 rate base by forcing the short term debt amount. To correct this we reverse the corrections to the 1991 rate base and the forecasting adjustments (Company adjustments 14, 42, 44-46 and 84-92, OPC 119 adjustments 64-67 and the revised adjustments for the FPSC staff audit and subsidy payments) and apply this amount to short term debt. The Company's remaining adjustments are separations changes and, as such, are appropriately applied pro rata over all capital sources. We find the resulting capital structure to be more representative of 1993 conditions. Our decisions regarding rate base shall also be applied to short term debt with the exception of the adjustment resulting from our decision regarding PIU Audits, which is a separation adjustment and is appropriately applied pro rata.

## IX. NET OPERATING INCOME

### A. Billing Forecast Units

Due to the large volume of service offerings, it is impractical to assess the reasonableness of each and every billing unit forecast. We evaluated the billing unit forecasts for those services that represent at least 1/2 of one percent of the Company's total billed revenue. The forecast evaluation process was sequential, starting with access lines, toll messages, and minutes-of-use, and progressing into an assessment of the internal consistency between these forecasts and the billing unit forecasts for key services. Demand for a particular service is usually directly related to an underlying demand source such as access line growth. In this context, we reviewed the forecast relationships for reasonableness.

#### 1. CentraNet Station Lines

The Company's forecast of CentraNet station lines is inconsistent in that MFR Schedule E-1a reflects 23,456 CentraNet station lines, while GTEFL's Strategic Plan shows 41,623 CentraNet station lines. In a late filed hearing exhibit, the Company recognized that certain additional billing units associated with Obsolete CentraNet and Contract Service Arrangements needed to be reflected in MFR Schedule E-1a. We agree. With this modification, the relationship between CentraNet station lines and Network Access Registers appears to be reasonable, and comports with GTEFL's Strategic Plan.

#### 2. Extended Calling Service/Pasco County - Countywide Calling

Based on our decisions regarding GTEFL's 1993 business-as-usual forecasts of access lines, toll messages, and minutes-of-use, the billing units must be revised accordingly. The appropriate billing unit forecasts for Extended calling Service and Pasco County - County Wide Calling are the average monthly values associated with those forecasts adopted in Sections VI. A-B of this Order.

Thus, the Company's 1993 Business As Usual billing unit forecasts for CentraNet station lines, Extended Calling Service, and Pasco County - County Wide calling shall be revised as follows:

| | Approved Forecast |
|---|---|
| CentraNet Station Lines | |
| - Obsolete Centrex (A112) | 5,922 |
| - Contract Svc Arrangements (A5) | 26,571 |
| Extended Calling Service | |
| - Residence Messages | 5,023,171 |
| - Business | |
| - Messages | 6,573,785 |
| - Minutes | 15,868,231 |
| Pasco County - County Wide Calling | |
| - Residence Messages | 179,576 |
| Business | |
| - Messages | 157,179 |
| - Minutes | 376,212 |

B. Operating Revenue

The appropriate amount of operating revenue for the test year is a mathematical calculation based on our other decisions in this proceeding as set forth below (all amounts rounded).

The intrastate test year operating revenue is $824,408,000 as shown on MFR Schedule A-2b filed on June 18, 1992.

The Company, in its revised filing of September 6, 1992, has proposed additional adjustments to the amount filed which that amount to $832,012,000.

OPC proposes additional adjustments which would bring the amount to $879,601,000.

Based on our decisions reflected elsewhere in this Order the appropriate amount of intrastate test year operating revenue shall be $848,447,000.

1. Employee Concessions

Employee concessions provide telephone service to employees at a reduced rate. GTEFL argues that it has booked employee concessions to the intrastate jurisdiction because they are foregone intrastate revenues. The Company contends that any other procedure will result in the revenue requirement not being recovered because the portion allocated to the interstate jurisdiction will not be recouped. GTEFL concludes that concession service is a traditional employee benefit similar to other types of employee benefits and the Commission should allow it for ratemaking purposes.

OPC asserts that local service revenue should be increased by $1,790,000. OPC contends that GTEFL should not offer telephone service to its employees without charge. OPC argues that in order to show any prudence of this measure, the Company would have to put on evidence that in the absence of the concessions, employees would find their salaries less attractive and thus either leave their employment or demand higher salaries to remain. OPC concludes that the concessions, if continued, should not be paid for by the ratepayers.

We agree that employee concessions are an employee benefit which should be accounted for in the same manner as any other benefit. We note that if the employee were compensated through salary rather than the employee concession, additional expense would be incurred for such items as payroll tax and workers compensation. Thus, the cost of compensating the employees would be greater than with the concessions. OPC has failed to demonstrate that the employee concession is either excessive or unique to the telephone industry. It is a long-standing benefit which is provided to all employees. However, we believe it is inappropriate that the entire amount of employee concessions be recovered from intrastate. Further, the Company was unable to demonstrate that either part 32 or part 36 precluded accounting for the concessions as an expense and separating it between the intrastate and interstate jurisdictions. Accordingly, revenue shall be increased by $1,801,000 total company, and an expense shall be recognized in the amount of $1,411,078 intrastate.

2. Directory Revenues

OPC and FCAN assert that above-the-line directory revenues should be increased by a minimum of $2,135,208.

The Company asserts that it has applied Rule 25-4.405, Florida Administrative Code and Section 364.037, Florida Statutes in a manner consistent with prior Commission audits and orders and Florida Supreme Court opinions. GTEFL contends that OPC's position is contrary to all authority on the topic and negates the incentive to maximize directory profits.

This matter was raised by OPC which proposes to include revenue from interstate operations due to the assignment to interstate of a portion of directory expense related to the publishing of the white pages. In rebuttal and revised direct testimony, GTEFL has made certain adjustments to increase its directory revenue. Moreover, GTEFL notes that OPC has not reduced its proposed adjustment for the 1/3 gross profit exclusion. After these adjustments are made by GTEFL, the difference between the Company amount and OPC is $429,107. The Company asserts that the remaining difference is due to it starting with per book amounts and OPC starting with amounts from the directory company. We find this explanation to be reasonable considering that differences can be caused by accruals and miscellaneous billing adjustments. In this context, we find that no adjustment to directory revenue is required.

3. GTE Directories

GTE Directories Corporation (GTEDC) publishes the directories for GTEFL. GTEFL retains a percentage of the revenue it bills and pays the remainder to GTEDC. In addition, GTEDC retains all revenues associated with foreign advertising and National Yellow Pages. The revenues paid to and retained by GTEDC are to cover the costs incurred by GTEDC in publishing the directories.

OPC asserts that GTEDC was able to earn a 25.85% return on equity in 1991. OPC argues that revenues should be increased by $7,750,559 to account for the excess earning on the GTE directories. OPC argues that, pursuant to Florida case law, it is the Commission's responsibility to determine how gross profits are determined. Moreover, OPC argues that there is nothing in GTEFL's evidence which suggests that the Commission cannot take return on investment into consideration when it computes gross profits on directory advertising.

GTEFL asserts that an adjustment due to the level of profit retained by GTEDC is a violation of Section 364.037 Florida Statutes and Rule 25-4.405, Florida Administrative Code. GTEFL notes that the return on equity of GTEDC includes earnings from its entire publishing business and not just directories published for GTEFL. However, we find that there is enough information in the record to calculate the amount of gross profit retained by GTEDC related to directories published for GTEFL only.

GTEFL argues that the Commission is not allowed by statute or rule to make any adjustment for the profits retained by GTEDC. and that the Commission should use only the Company's financial records in calculating the gross profit.

Section 364.037, Florida Statutes, sets out the regulatory treatment of the gross profits derived by telephone companies from directory advertising. The Statute specifies how much of the gross profit will go to the ratepayers and how much will go to the stockholders. We find that amount of gross profit which GTEFL and its affiliate GTEDC can retain for the benefit of stockholders is limited by Section 364.037. Thus, GTEFL shall report all gross profits derived from directory advertising by GTEFL, its parent company, GTE Directories Corporation and any affiliated company (not merely those amounts retained by GTEFL), for the purpose of calculating the amount of non-regulated gross profit pursuant to Section 364.037, Florida Statutes. If it is subsequently determined by the Commission that directory revenues are being understated, further action shall be taken.

4. <u>Accounting for Directory Revenues</u>

GTEFL asserts that prior to November 1991, it recorded directory advertising revenues on an "as billed" basis. For example, if a directory was issued on January 1 of the year, then the revenue was recorded during each of the following twelve months that the directory was effective. In November 1991, GTEFL changed its accounting so that all revenues for publishing a directory are recorded in the month that the directory is issued. This resulted in additional revenue in 1991, since part of the revenue from directories issued in 1990 and all of the revenue from directories issued in 1991 is included in 1991's earnings. GTEFL made an adjustment in the MFRs to remove the additional revenue from its earnings. GTEFL believes that this change in accounting is more in line with generally accepted accounting principles (GAAP). The change resulted in additional revenue which OPC and FCAN assert should be amortized over a three year period.

Upon review, we are not convinced that this change in accounting is more consistent with GAAP. GTEFL is the only local exchange company in Florida which has adopted this change in accounting. Moreover, this method of accounting for directory revenue appears to yield higher revenue requirements, after the amortization of any one-time gain ends. Recording all the revenue at the time the directory is issued results in a large accounts receivable on the balance sheet. The accounts receivable is reduced each month as the revenue is billed and received. The larger average amount of accounts receivable increases working capital and rate base, thereby, increasing revenue requirements. Under the circumstances, we find that this accounting method needs to be investigated generically. Thus, the revenues associated with the change in directory revenue accounting shall not be recognized or amortized over a period of time. The effects of the accounting change shall be completely removed from GTEFL's income statement and balance sheet for regulatory purposes.

5. Interlata Subsidy Fund Payments

During 1991, GTEFL made payments into the interLATA subsidy fund of $939,000. This amount was recorded as a reduction or offset to revenue. By Order No. PSC-92-0028-FOF-TL, the we reduced ALLTEL Florida, Inc.'s interLATA subsidy receipts by $472,000 annually, effective April 1, 1992. This led to a reduction in GTEFL's subsidy payments of $138,000 to $801,000. By Order No. PSC-92-0368-FOF-TL, we reduced Northeast Florida Telephone Company's subsidy receipts by $111,000 annually, effective July 1, 1992. This resulted in a further reduction in the payments by GTEFL into the subsidy pool to $690,000.

GTEFL contends that its book revenues need to be reduced by $690,000 to reflect the estimated 1993 amount of subsidy fund payments. OPC asserts that GTEFL's revenues need to be increased by $249,000 to reflect the decrease in GTEFL's subsidy fund payments from the 1991 amount to the 1993 amount.

As discussed below, payments into the subsidy pool by a company should appear as a reconciling item in MFR Sch. E-7. In the Company's MFR Sch. E-7, billed revenue was reconciled to within $1,559,788 of booked revenue. GTEFL did not include the subsidy payments as a reconciling item. If it had included the subsidy payments, the difference between booked and billed revenues would be only $869,778 ($1,559,788-$690,000). We find that since the omission of the subsidy fund payments as a reconciling item affects neither the billed nor booked revenue in this case, no adjustment is necessary to either the billed or booked revenue.

6. Book Revenues

Based on its review of the original filing, OPC contends that the Company has not been able to reconcile the per book revenues with the MFR tariff price-out schedules E-1. OPC argues that the tariff price-out amounts are the most appropriate for rate setting and should be used in establishing the revenue requirement since they are the units that ultimately will be used to set rates. Book values would need to be increased by $2,680,529 to agree with the tariff price-out schedules.

The Company maintains that the adjusted book revenues utilize only financial data and are a better representation than the MFR tariff price-out which utilizes unadjusted units. The Company asserts that its revenue accounting system produces millions of entries which are impossible to duplicate with a tariff price-out.

We agree that the adjusted book revenues utilize only financial data and are a better representation than the MFR tariff price-out which utilizes unadjusted units. The Company has been able to reconcile the revised per book revenues filed on September 6, 1992 with the revised MFR tariff price-out schedules E-1 within $1,559,788, a portion of which is explained by InterLATA Subsidy Fund Payments.

However, obsolete centrex revenue of $468,909 and contract service revenue of $2,560,027 are not included in the revised operating revenue nor the revised MFR Schedule E-1a. Intrastate revenue shall be increased by $3,028,936 to reflect these changes.

7. <u>New Product Offerings</u>

OPC maintains that the Company, in its use of projected revenues based only on approved tariff filings, has not properly recognized all new product offerings which it is expected to introduce in 1992 and 1993. OPC asserts that the net intrastate revenue increase projected for these tariff filings, whether approved or not, be reflected in operating revenue. OPC contends that intrastate revenues should be increased by $3,311,529.

The Company maintains that all new service revenues and expenses that have been approved by the Commission have been recognized in the filing. New product offerings that are pending approval or that are under development have not been included as they may not be implemented in the 1992-93 time horizon.

We agree that not all new product offerings which the Company is expected to introduce in 1992 and 1993 have been included in the filing. There are a number of new service offerings that the Company expects to roll out during 1992 and 1993 that were not reflected, net of associated expenses and displaced revenue, in the revised operating revenue.

We have reviewed the projected offerings, and find it appropriate that $1,251,821 in revenues associated with these offerings be recognized as projected 1993 operating revenue. In making this determination, we considered the following criteria: whether the filing had been or was expected to be made during 1992; whether the service was an enhancement to an existing service or a new service; and if a new service, whether it currently is offered by any Florida local exchange company or other providers. Based on our analysis, we find that revenues from the following services shall be recognized as additional test year revenue:

| Service | Additional Net Revenue |
|---|---|
| Automatic Call Distribution (ACD) | $56,493 |
| Customer Moves and Changes (CMAC) | (63,523) |
| ISDN BRI-Single Line | 358,763 |
| Multi-Megabit Digital Service (MMDS) | 409,570 |
| Switched Data-Datapath Extension | 331,243 |
| Zero Minus Inward | 105,275 |
| CCSS7 Access | 54,000 |
| Total Revenue | $1,251,821 |

Of the above services, two--Zero Minus Inward and Switched Data-Datapath Extension--have been approved by this Commission. We include MMDS because it is offered by other providers in Florida. The remaining services which were included are enhancements to existing services. We did not include revenues from DA Call Completion service,because the Company indicates it is experiencing implementation problems which cast doubt on when this service will be offered. We find that the remaining services, totaling $372,708 in intrastate revenue, may be too speculative to estimate their acceptance or implementation during the period for which the rates are being set. Thus, intrastate revenues net of expenses and displaced revenue Should be increased by $1,251,821.

8. Rent Revenues

The Company has increased rent revenues by $1,196,056 pursuant to the approved stipulation.

9. Gross Receipts Tax

OPC asserts that the Company incorrectly calculated the effect of unbundling the gross receipt tax. It is OPC's view that Rule 25-4.110(8), Florida Administrative Code, requires that each rate be reduced to unbundle the gross receipt tax embedded in the rates at the time of the last rate case and that this Rule has not been followed. OPC argues that the Company should have been crediting gross receipts taxes as a liability and not as revenue. OPC contends that because the tax had been booked as a revenue when the Company unbundled the tax, the Company reduced revenue though there was no reduction to rates. This caused an overstatement of the revenue deficiency presented in this case. OPC concludes that revenues should be increased by $8,449,071 to restore these revenues.

The Company argues that, for purposes of establishing rates, it will not have these revenues. For rate design purposes, the Company has reduced its embedded residence local rate to reflect the removal of the bundled gross receipts tax.

Although there appears to be opposing opinions on this issue, either method will accomplish the same goal. We agree that the business as usual (BAU) revenues should not reflect revenues generated to recover the gross receipts tax. If these revenues were reinstated the increase in revenue requirement would be understated or the decrease in revenue requirement would be overstated. This would send the wrong signal to the ratepayer who would expect a lower monthly bill when, in fact, the bill would not change due to the unbundling of the gross receipts tax. We find it inappropriate to apply Rule 25-4.110(8), Florida Administrative Code, which requires that each rate be reduced to unbundle the gross receipt tax since one of the basic purposes of a rate case is to reset the Company's rates as necessary in the public interest. Accordingly, as discussed in our analysis of local rates, BAU revenues to be recovered from rates have been appropriately reduced by $8,449,071. Thus, we find that no adjustment is necessary.

10. Customer Operation Revenues

OPC asserts that the Company shows a decrease in Other Incidental Revenue in the MFR. However, OPC acknowledges that most of this revenue is from Line Identification Data Base (LIDB) which is adjusted elsewhere. OPC contends that this projected decrease has understated customer operation revenues when compared to Company projected amounts and that operating revenue should be increased by $1,534,190.

The Company asserts that customer operation revenues are not understated and that the appropriate adjustments have been made through the revised revenues submitted on September 3, 1992. GTEFL contends that OPC has proposed an adjustment which double counts revenues from the LIDB which were separately adjusted under the new products and services adjustment. The Company concludes that OPC's proposed $1,534,190 adjustment is improper. We agree with the Company.

11. Universal Service Fund

GTEFL estimated in its filing that the 1993 USF would be $2,025,176. OPC argues that the Company reduced the amount of 1993 USF in the rate case, although its Strategic Plan showed an increased level of USF for 1993. Subsequent to the MFR filing, National Exchange Carrier Association (NECA) notified the Company that the estimated amount of USF for 1993 for GTEFL is $4,395,374. The Company accepts this number. Upon review, we find it is appropriate to increase operating revenues by $2,370,199 to reflect NECA's latest USF revenue estimate of $4,395,374.

12. Percent Interstate Usage

As a result of PIU audits, the Company discovered that adjustments were required to increase revenue by $2,520,692, intrastate rate base by $1,451,355, operating expense by $213,279 and depreciation expense by $197,973. The findings of the PIU audits indicate that a higher level of intrastate traffic exists than reported. This increase in intrastate traffic causes the intrastate separations factors to increase.

Upon review, we find that it is appropriate to increase revenues, expenses, and rate base to reflect the findings of the PIU audits.

C. O&M Expense

The appropriate amount of O&M expense for the test year is a mathematical calculation based on other decisions in this case.

The intrastate test year operation and maintenance expense as filed is $431,809,000 as shown on MFR Schedule A-2 filed June 6, 1992. The Company, in its revised filing of September 6, 1992, made adjustments which brought this amount to $426,803,000. OPC proposed adjustments which would bring the amount to $336,136,000. Based on other decisions in this case the approved intrastate test year operating expense is $401,573,000.

1. USTA DUES

Both GTEFL and OPC have made adjustments to remove a portion of the USTA dues. While the total amount of the dues and the components in question are not in dispute, there is disagreement as to which items should be removed, and in what percentage.

GTEFL reduced corporate operations expense by $9,640 ($7,493 intrastate) for USTA dues which pertain to government relations. The Company removed only fifty percent of this portion of USTA dues. The Company asserts that, based on a NARUC audit of USTA, only 50% of these costs were attributed to government relations. However, the Company has been unable to substantiate this number. Likewise, the Company has not been able to adequately substantiate its position regarding public relations costs.

OPC asserts that the Company should remove $25,849 total company USTA dues, or $20,139 intrastate to account for that portion of the dues pertaining to government relations and public relations. OPC asserts that this is appropriate based on the assumption that ratepayers receive no benefit from the USTA money spent on promoting the telephone industry.

Upon review, we find that the ratepayers should not bear the burden of promoting the telephone industry. We agree with OPC regarding both the government and public relations portions of the USTA dues. Accordingly, we find it appropriate to remove expenses of $20,139 intrastate. Because the Company has already removed $7,493 intrastate, an additional reduction of $12,646 intrastate shall be made. This is a 1991 number, and thus shall be increased by the Company's inflation factor of 1.058841 to $13,390.

2. Severance and Early Retirement

In Revised Direct Schedule BAJ-3, adjustment 60, the Company removed $42,469 intrastate, adjusted for income taxes. We find this adjustment to be appropriate. The record does not evince a need for any additional adjustment.

3. Uncollectible Expense

OPC proposes to reduce the Company's projected level of uncollectible expense by $3,298,660 intrastate based on the assertion that the Company has overstated the projected amount of uncollectible expense for 1993. OPC argues that the Company relied on the amount of bad debt expense recorded during 1991 without regard to recoveries of previously written off accounts. OPC arrived at the appropriate level of uncollectible expense by comparing the Company's Strategic Plan to the Company's estimate of uncollectible expense included in the filing.

GTEFL, in rebuttal, argues that the uncollectible amount in the Company's 1992-1996 Strategic Plan used by OPC understates the Company's going forward level of uncollectible revenues. The Company asserts that OPC's projected uncollectible revenues do not have any relationship to its proposed level of 1993 revenues because OPC failed to calculate an uncollectible net write-off percentage and apply that to 1993 revenues. The Company increased intrastate uncollectible expense by $638,299 to reflect the impact of the various additional revenue adjustments included the Company's revised revenue requirement.

The Company calculated uncollectible factors based on 1991 actual write-offs and write-ons and applied these factors to projected 1993 revenues. GTEFL disputes that it has disregarded previously written off accounts (write-ons) in its calculation. The Company asserts that the references to "write-offs" in the Company's workpapers represent net write-offs, which incorporate any write-ons. After examining the Company's accounting workpapers we find that write-ons have been included in the calculation of the net write-off percentage.

GTEFL agrees that the average intrastate uncollectible expense for 1988, 1989, and 1990 based on the surveillance reports is $5,731,000, that the 1991 intrastate uncollectible expense is $13,690,000, that the reserve balance declined from $15,887,124 at the beginning of 1988, to $3,421,816 at the end of 1990 and that it increased to $7,713,929 by the end of 1991. GTEFL does not dispute that the reserve balance was understated in 1990 and 1991. However, GTEFL does not acknowledge a relationship between the $13,690,000 intrastate booked in 1991 and the understatement of the reserve account in prior years.

We disagree with this latter assessment by the Company. The reserve balance is derived by taking the beginning reserve balance, accruing the expense, and deducting the net write-offs to obtain an ending reserve balance. It follows that if the expense is understated, the reserve balance will decline. An examination of the Uncollectible Accounts schedule from the Company's annual reports for 1988 through 1991 shows that the reserve balance declined steadily from 1988 through 1990, then rose sharply in 1991. Further, an examination of the Company's ESRs shows expense of $5,195,000 for 1988, $6,560,000 for 1989, $4,539,000 for 1990, and then a large increase to $13,690,000 for 1991. These facts indicate that the uncollectible expense was understated prior to 1991, and that the 1991 figure was a "catch-up" figure.

Since the 1991 figure is a catch-up figure, part of the 1991 expense actually pertains to the prior years. We find that the 1988 figure of $5,195,000 is reasonable. We trended the expense from the Company's ESRs for 1989 through 1991 so that the three year total remained the same as the Company's figures. This increases the expense for 1989 and 1990, while reducing the 1991 expense to $10,237. The Company's forecast of its 1993 expense included an increase of approximately five percent per year. Applying this percentage increase to the adjusted 1991 figure of $10,237 yields an intrastate uncollectible expense of $11,336,306 for 1993. The Company used a total of $12,335,324 in its revised direct case. Thus, we find that a reduction of $999,018 to intrastate uncollectible expense is appropriate.

4. Data Processing

The Company received a credit from General Electric Information Services (GEIS) which represents royalties received from the Mechanized Assignment and Recording Keeping (MARK) system.

Company witness Bryce provided the following history of MARK:

> Development of the MARK application started within GTEFL in 1972. GTEFL contracted with General Electric Information Services (GEIS) to develop and administer the first module of MARK which was an application to support change activity in electronic central office switches. The MARK system has continued to evolve into the application it is today. MARK processes for telephone numbers, line equipment, outside plant, street addresses and service order entry have been added for enhanced system functionality.
>
> In 1980, GTE Southwest requested permission to utilize GTEFL's MARK application. GEIS and GTEFL reached an agreement in 1981 where GEIS would provide royalty payments to GTEFL for use of the MARK application based upon computer resources utilized by other GTE Operating Companies (GTOCs). This agreement between GTEFL and GEIS continued until December 31, 1987.
>
> During 1987, GTE Service Corporation (GTESC) approached GTEFL about transferring MARK ownership to GTESC for the purpose of making MARK a standard system for all of GTE Telephone Operations. GTEFL agreed and assigned its MARK rights to GTESC. GTESC and GEIS subsequently signed a contract effective January 1, 1988, where GEIS would continue to provide MARK enhancements and maintenance. In order for GTEFL to fully recover its investment in MARK, GTESC continued to assign GEIS royalty payments to GTEFL until such time as GTEFL recovered its MARK investment or until the original GTESC/GEIS contract terminated at year-end 1992.

OPC and FCAN advocate the disallowance of $4,404,493 of the intrastate expense pertaining to the $5,728,267 MARK credit reversed by the Company in its filing. OPC asserts that the Company will recognize savings in data processing costs by bringing MARK in-house. These savings have not been recognized in the filing. The expenses in 1992 are expected to be less than in 1991. The Company does not have the 1993 budgeted dollars for the project. Therefore, OPC contends that the MARK Credit received by the Company in 1991 and reversed out in TAB 74 is reinstated to simulate the expected going forward savings.

We note that the credit OPC has used in its adjustment has nothing to do with any future savings due to the MARK system. OPC has simply used the credit as a substitute for savings it expects to occur. The credit represented royalty payments received for use of MARK and the payments are no longer being received. Moreover, the record indicates ongoing expenses associated with MARK. We find that it is improper to add back the credit to simulate savings which will not occur until 1995. Therefore, no adjustment shall be made to data processing expense to add back the credit associated with MARK.

5. Fringe Benefits

The issue, raised by OPC, is whether the amount of medical insurance expense is reasonable. OPC has recommended that an adjustment be made based on an increase of 7.5 percent per year, rather than the increase proposed by the Company.

OPC argues that the ratepayers should not support excessive levels of fringe benefits, particularly given today's economic conditions and the significant rate increase being requested by the Company. OPC recalculates the amount of health insurance based on a 7.5% increase instead of the Company's increases of 19.0% in 1992 and 13.2% in 1993. OPC advocates a decrease of $4,307,000 based in part on the fact that the growth in medical and life insurance was 6.46 percent from 1990 to 1991. OPC contends that it is necessary to place a cap on the projected increases in the cost of health care to provide an incentive to the Company to keep costs down.

In their final arguments in their respective briefs, both OPC and the Company have ignored the fact that the actual medical and life insurance expenses for 1992 were less than projected in the Company's MFRs. A Company exhibit showed that, due to the lower 1992 amount, 1993 expense should be recalculated for a reduction of $3,272,646 total company or $2,564,107 intrastate. The percentage increase for 1992 and 1993, based on the new figures is 9.07% and 10.77% respectively.

Similarly, payroll tax expense was not addressed by OPC or the Company. However a Company exhibit indicates that payroll tax should be $18,329,697, a reduction of $1,265,746, total company, or $991,707 intrastate.

We find that OPC's argument that GTEFL has no incentive to reduce costs is not supported by the record. The Company has implemented a number of programs aimed at reducing medical insurance costs. OPC's contention that it is not necessary to provide benefits to attract good employees is not compelling. Moreover, in spite of the Company's efforts to keep costs down, medical insurance costs have increased more than the 7.5% advocated by OPC. The amounts as recalculated by the Company show a much more reasonable amount of increase than was originally projected.

We accept the Company's recalculation which shows that insurance benefit expense for 1993 is overstated. Thus, insurance benefit expense shall be decreased by $2,564,107 intrastate. Additionally, we find the payroll tax expense is overstated as shown in the Company's recalculation for 1993. Accordingly, the payroll tax expense shall be decreased by $991,707 intrastate. This yields a total decrease to fringe benefit expense of $3,555,814 intrastate.

6. Supplemental Executive Retirement Plan

The Company asserts that the supplemental executive retirement plan (SERP) merely grosses up the "at risk" portion of an executives salary to provide retirement benefits at a level that reflects total compensation. GTEFL has made a decision to incent its work-force through a compensation structure that incorporates an element which places a portion of the traditional salary amount "at risk". This focuses the employee's attention on specific goals with financial remuneration dependent on whether the employee is successful. The Company intends to create a total compensation package equal to market standards. The Company concludes that any disallowance will result in the Company not receiving the full amount of its normal payroll expenses.

OPC proposes to remove costs associated with the SERP. OPC agrees that it is an addition to the basic pension plan that grosses up the pension to take into account incentive payments, but contends that this provides additional pension benefits to some of the highest paid executives above and beyond what is paid by the normal pension plan. OPC asserts that this is a nonqualified plan for tax purposes; therefore, the payments are not tax deductible. OPC does not advocate taking the compensation away, but does not believe it should be paid for by the ratepayers.

OPC asserts that the adjustment to SERP should be made regardless of whether the Commission determines that base salaries plus incentive compensation equals reasonable compensation to an employee. OPC presented testimony that in other states these expenses are routinely placed below the line.

FCAN's position is that only plans which accrue benefits available to most or all employees should be considered for cost recovery. FCAN did not produce testimony to support this position.

Upon review, we find that the overall issue is one of whether the compensation is reasonable. We do not accept OPC's position that an adjustment to the SERP is necessary regardless of whether the compensation is reasonable in this case. We find that the amount of expense in the filing associated with SERP is reasonable. The Company shall be allowed to recover the cost of the SERP. No adjustment is necessary.

7. Incentive Payments

GTEFL pays its management through a combination of base and incentive salary components. OPC has taken exception to the incentive portion and has recommended an adjustment to remove it.

OPC would remove all amounts from the Company's filing that pertain to any sort of incentive compensation. OPC asserts that, given the magnitude of the Company's requested rate increase, any amount of incentive compensation is excessive. OPC asserts that one hires an employee with the expectation that he will do a good job and he should not be paid extra for doing what is expected of him. OPC has not done any analysis as to whether the Company's total compensation package is appropriate.

We find that the use of Stock Appreciation Rights (SARs), which is part of the Company's LTIP plan, may not be in the best interest of the regulated ratepayers because the value of the Company's stock is based on non-regulated as well as regulated activities. However, in this case, the amount is small, due to the restricted nature of the program. There is no need for an adjustment due to this program.

Moreover, we do not find the total amount of executive compensation to be excessive. OPC's contention that the incentive portion is a bonus or something "extra" is unsupported by the record. Rather, it appears that without the incentive portion the executive salaries will fall short of a normal salary. We find that the Company shall be allowed to determine the structure of its compensation package so long as the overall compensation is reasonable.

8. <u>Inappropriate Expenses</u>

OPC proposes that we remove $554,093 intrastate as inappropriate. The items included the Martin Luther King breakfast; the Governor's baseball dinner, the Florida Classic and the Super Bowl parade, the telethon, volunteer T-shirts, and the food drive. FCAN mirrors OPC's position.

The Company asserts that it has removed all inappropriate expenses from its revised direct case. GTEFL's schedule is $10,000 less than OPC's because an item for the Florida Classic was left out and an item for the St. Petersburg Artworks was reduced. Neither of these items was explained. The Company noted that an adjustment was made to remove GTE Florida's allocated share of merger related costs in its revised direct case. Upon examination of the revised direct and rebuttal testimony, the items do not appear to be removed. The Company has allocated the amounts differently between GTEFL and GTE South. However, the record does not indicate that the Company's allocation is unreasonable. Taking the Company's number of $222,126 and adding back the $10,000, yields $232,126, or $180,437 intrastate.

We find that Community Affairs advertising shall be removed. We accept OPC's amount in total, but find that the Company's allocation should be used, after adding back the $10,000 deleted from the Company's schedule as discussed above. Accordingly, a reduction of $180,437 is appropriate. Applying the Company's inflation factor of 1.058841 the 1993 amount is $191,054.

9. <u>Health Club Facilities</u>

OPC contends that the benefits of health care facilities are speculative at best. From the evidence produced by GTEFL, the Commission cannot infer benefit because it has not been shown that GTE encourages use of the facilities. Moreover, GTEFL failed to show that the facilities--which are elaborate by any measure--are suited to the benefits which ratepayers are supposed by GTEFL to receive. FCAN argues that the expenses should be allowed so long as the benefit remains available to all or most employees and there is a link to health care costs.

GTEFL offers the use of four health fitness centers for its employees as part of its overall benefits package. The centers are located in Tampa, Sarasota, St. Petersburg, and Clearwater. The Health Centers are available to all GTEFL employees who elect to become members of the Centers and pay a $5 per pay period membership fee. The Centers have a total membership of 1,032 employees.

We find that OPC's position that the facilities are elaborate is unsupported by the record. The amount associated with the centers is $380,712. If divided by 1032 employees, we calculate the cost per participating employee to be approximately $30 per month, which we find to be reasonable. The record shows that the Company has engaged in a number of programs intended to lower health costs and increase productivity of its employees. The four locations of the Health Fitness Centers allow most of the employees the opportunity to participate. While the benefits of a healthy work force are difficult to quantify, we accept that such benefits exist. Further, the cost to provide this benefit to the employees appears to be reasonable. Therefore, the Company shall be allowed to recover the reasonable cost of providing health club facilities for its employees.

10. Relocation Expense

The Company has included $1,875,755 of relocation expense in its filing. OPC argues that this amount is excessive and should be reduced by $730,694. FCAN agrees with OPC.

OPC removed 50 percent of the relocation expense as excessive. OPC agrees that based upon year-to-date data, the actual relocation expense may support the Company's position. However, OPC does not accept that the items in the relocation expense are necessarily prudent, such as $84,228 allocated to Florida to move Chief Executive Officer Paul Nolan. OPC also contends that since Winning Connection II is complete, the amount of relocation expense will not remain at the same level.

The Company argues that OPC's adjustment is arbitrary, without quantified support, and does not consider historically auditable experience and should be rejected.

A review of the record indicates that the Company's relocation expense jumped sharply from 1988 to 1989 and continued upward in 1990. Part of the 1990 costs were associated with Winning Connection II which was completed in 1990. The expense has dropped since 1990, and appears to be continuing to do so. The Company acknowledges that the actual relocation expenses annualized business as usual expense in 1992 is $1,725,711. Thus, from 1991 to 1992, the expense dropped $150,000. Since several major reorganizations have been completed, we find that the downward trend in relocation expense will continue. If the expense drops an additional $150,000 from 1992 to 1993, the total relocation expense would be $1,575,000. Applying the Company's inflation factor of 1.058841, the 1993 amount included in the filing is $1,986,126

($1,875,755 multiplied by 1.058841). Thus, relocation expense shall be reduced by $411,126 total company, or $319,577 intrastate.

11. Cost Saving Measures

The Company has implemented a number of cost savings programs and asserts that it attempted to capture any savings that were planned through 1993, whether or not the programs were actually in progress. GTEFL argues that its original filing reflected employee wage reductions due to planned employee reductions and other expense savings due to the implementation of various cost saving programs. The Company has revised its original filing to reflect additional cost savings associated with its announced plan to reduce contract labor expense. The Company contends that no further adjustment is necessary.

OPC argues that test period expense should be reduced by $3,844,525 to reflect these cost savings programs. OPC contends that although the Company will realize a number of savings in 1992 and 1993, only specific program savings are accounted for in the Company's filing while other programs are projected to result in significant savings.

A review of the record indicates that the expenses associated with the various programs are net of the expected savings. Where the savings are reflected in labor costs, we find it appropriate to address the savings in the issues pertaining to labor costs. Otherwise, we find that the Company has properly accounted for cost savings measures and no further adjustments are necessary.

12. Data Processing Agreement

As discussed above, GTEFL has a Mechanized Assignment and Record Keeping (MARK) system. The Company has included expenses for the implementation of the MARK Migration. The purpose of the MARK Migration is to gain in-house control of MARK. MARK is currently operated, maintained and enhanced for GTE by General Electric Information Services (GEIS). By bringing MARK in-house, data processing costs will be reduced and the Company will be operating, maintaining and enhancing the system to meet future needs. We note that "in-house" actually refers to GTEDS and not to GTEFL. It is also important to note that our analysis here is distinct from our consideration of the transfer of ownership in the MARK system to GTESC where the ownership of the software was at issue. The MARK Migrate involves only the operation of the system, which is currently handled by GEIS.

OPC asserts that the GTEFL incurred over $16 million in expenses associated with MARK during 1991. The Company also received a credit from General Electric Information Systems of $5.7 million which it removed as non-recurring. OPC argues that although the Company has included $4.3 million for the MARK Migrate in 1993, the record does not indicate that any of the test period expenses associated with GEIS have been removed. OPC notes that the Company is requesting all of the test period expenses paid to General Electric Information Systems, an additional $4.3 million for the MARK migrate and the reversal of the $5.7 million in credits received by the Company in 1991.

OPC contends that there are ongoing data processing costs in the filing, that MARK is a specialized system, and the costs for it should be in data processing expense. OPC argued that after reevaluation it would remove the $2.2 million in savings because of the negotiated contract, remove the $4.3 million in developmental costs in the MARK because the new system is going into effect January 1st, 1994, add these two adjustments together, take the separations factor, and compare the result to those adjustments on his schedules 37 and 38. It is not clear from the record whether this would be in addition to, or instead of, the adjustment proposed by OPC in its direct testimony.

OPC agreed that the Company should be allowed to recoup development costs of software if they are reasonable, representative of a proper going forward level, and are matched with the potential savings or additional revenues associated with those development costs. OPC agreed that it would be prudent for the Company to pursue software development if it reduces ongoing operating expenses.

FCAN asserts that the Company has not fully taken into account the new data processing agreement which became effective in 1992. FCAN supports OPC's adjustment.

For purposes of developing its rate year level of expenses, the Company reflected all projected 1993 costs and savings from programs that were implemented in 1991 or were planned for implementation in 1992 or 1993. Due to the timing of the MARK implementation, the implementation costs have been reflected in the rate year level of expenses but the savings have not been included.

The Company asserts that it is entitled to the ongoing processing costs that it will take to run the system in the future. The costs will be incurred until at least 1995 and are a necessary and prudent operating expense. The Company contends that the MARK Migrate expenses are proper and should be allowed because they support software development and transition costs that will produce benefits in the future. As such, they are proper for ratemaking expenses.

Upon review, we find that the Company shall be allowed to recover the operating expenses of the MARK system because there will be ongoing expenses associated with the system. The record indicates that GTEFL has accounted for the $2.2 million price reduction from GEIS. However, the Company has included costs for the MARK Migrate which will not be implemented until year end 1994, which is after the rate year. Thus, GTEFL has included the costs associated with the implementation of this program, but has not included the savings it will generate. Moreover, the Company acknowledges that once the transition occurs, GTEFL will pay the costs to GTEDS instead of GEIS. Therefore, we anticipate no savings accruing to the ratepayer as a result of the MARK Migrate. We find that GTEFL's rate payers shall not pay to transfer control of MARK from GEIS to GTEDS, one of GTEFL's affiliates. Therefore, we disallow the MARK Migrate implementation costs in the amount of $4,655,000 total company or $3,567,842 intrastate.

13. <u>Separation Factors</u>

a. <u>Interstate Traffic</u>

OPC asserts that GTEFL did not take into consideration the increased level of interstate traffic when calculating the separations factors for 1992 and 1993. OPC proposed adjustments to the Company's original filing. Subsequent to OPC's testimony, Company witnesses Johnson and Wellemeyer filed revised direct testimony which we find appropriately reflects the revised separations factors incorporating the increased level of interstate traffic. Because we find that the Company has appropriately addressed the concerns raised by OPC, no further adjustment to the separations factors is necessary.

b. <u>Billing and Collection</u>

OPC contends that interstate billing and collection costs (B&C) should be removed from the individual account balances before the accounts are separated into interstate and intrastate. Although OPC asserts that the intrastate expenses are overstated by $7,526,000, it does not include this adjustment in the revenue requirement calculation.

It is GTEFL's position that OPC's adjustment is incorrect and unsupported. The Company contends that it cannot remove the costs associated with the interstate B&C from the individual account balances before the separations process because this amount cannot be determined until the separations process is completed and the interstate portion has been further allocated among the access elements and B&C. GTEFL contends that FCC Part 69 dictates the allocation procedure regarding separations of B&C costs and that the requirement not to remove B&C costs before separations is implicit in Part 69.

We find OPC's testimony to be unsupported. GTEFL is appropriately separating the B&C costs between interstate and intrastate, in accordance with FCC Part 69.

c. <u>Access Billing System</u>

GTEFL currently records the development cost of Carrier Access Billing System (CABS) in accounts 6124 and 6724, General Purpose Computers Expense and Information Management, respectively. Expenses recorded in these accounts are separated through normal separations procedures prescribed by the FCC and result in the intrastate separations factor of approximately 75%.

Pursuant to FCC Part 36.381, the expenses associated with the revenue accounting functions of CABS should be allocated to intrastate using a 50% separations factor. OPC presented testimony that this separations process should be applied to not only the revenue accounting expenses, but also to the development cost of CABS.

The separations factor of 50% which OPC advocates is not applicable to accounts 6124 and 6724. FCC Part 36.381 does not address any special allocation procedures for the CABS development costs. We find that the Company has properly calculated its separations factors for costs associated with the development of the CABS.

14. <u>Miscellaneous Expenses</u>

The Company has included a number of items in its filing which OPC contends are inappropriate for ratemaking purposes. These are characterized as miscellaneous expenses and include: a fine for the destruction of records, an amount associated with the President's Quality Cup Award (PQA), and a reward for employees providing a high quality of service, community affairs/economic development items, and health fitness centers.

The fine paid to the Commission was removed on Johnson Revised Direct Schedule BAJ-2. The Company asserts that it expects all employees to be as efficient as possible and provide the highest quality of service and that the PQA is used to visibly communicate and reinforce quality values and policies. GTEFL contends that the "Run to Bridge the Bay" sponsorship, the annual investment in Tampa Downtown Partnership, and the shirts and towels for "Paint Your Heart Out Tampa" are allowable expenses for ratemaking purposes. The Company asserts that the Tampa Downtown Partnership will help stimulate economic development in Tampa, creating additional customers and additional revenues. The other two items are community affairs advertising which the Company argues is allowable for ratemaking.

We have disallowed Community Affairs advertising and approved fitness center expense supra in this Order. Since the $5,000 fine has been removed from the filing, it does not need to be addressed further. Regarding the President's Quality Cup Awards, we agree with the Company that it is important to reward exceptional performance and to reinforce quality values and policies. However, we agree with OPC that the remaining items in DeWard's Schedule 46 are inappropriate for ratemaking purposes. These are the "Run to Bridge the Bay" sponsorship, the annual investment in Tampa Downtown Partnership, and the shirts and towels for "Paint Your Heart Out Tampa". Moreover, we find it inappropriate for ratepayers to bear the burden of economic development costs because it is the shareholders who receive the benefit of growth. This matter will be discussed further infra in our consideration of Chamber of Commerce dues.

Thus, we disallow $40,000 total company, $31,093 intrastate, to remove miscellaneous expenses which are inappropriate for ratemaking purposes. Applying the Company's inflation factor of 1.058841, the 1993 amount is $32,923.

15. Wage and Salary

The Company included adjustments for the planned reduction in employees in its original filing. However, the reductions were not as great as expected.

OPC presented testimony that the Company has not finalized its plans for employee reductions, if any, for 1993. OPC contends that GTEFL has been able to reduce its work force and its level of contractor labor significantly over recent history and that additional reductions were planned for 1992. Thus, OPC contends that it would be inappropriate to allow the Company to increase expense by over $5.9 million without taking into consideration planned work force reductions and extra efforts the Company may undertake to reduce 1993 expenses.

The Company provided a late-filed exhibit which contrasted how much it expected to save with the employee layoffs and how much GTEFL did save by cutting back on contract labor. The exhibit showed a total reduction of $27,306,688 made by the Company to labor and contractor expense. This exceeds the amount of adjustment made in the original filing by $1,877,499.

The Company argued that there are four errors in OPC's approach. First, in the original filing, the Company estimated that GTEFL employee levels would be reduced from 8,400 as of October 1991 to 7,677 by the end of 1992, due to separation incentives, force reductions, and local operations programs. As of May 1992, the Company had only reduced its employee head count to 7,807. Since the Company has no further plans to involuntarily reduce employee levels, May's employee count provides the best estimate of the going-forward level of employees. The unrealized savings calculation should be based on an unrealized employee reduction of 130 as opposed to 153 employees used OPC. The Company revised its wage adjustment to reflect the higher projected employee count level.

Second, the Company argued that OPC attributed the unrealized savings entirely to regulated operating expense. Third, OPC did not allow for the estimated increase in salaries for employees who have not left the Company. Fourth, OPC did not allow for any of the benefits costs associated with the employees who have not left the Company, which the Company removed by way of the labor adjustment included in the original filing.

In addition, the Company revised its wage adjustment in its revised direct testimony and has added a contract labor expense adjustment to its revised revenue requirement. The Company contends that beyond the adjustments already made, no further adjustment is needed.

The Company has provided an estimate of its future level of wage and salaries expense, based on the May, 1992 actual expense. We find that the Company's arguments are more persuasive than OPC's and that GTEFL's revised estimate of future wage expense is appropriate.

16. <u>OPC 119 and OPC 119 Supplements</u>

The Company has incorporated in its revised filing 68 updates and corrections provided by the Company in response to OPC 119 and OPC 119 Supplements. These changes reduce operating expense by $2,368,000.

We agree in concept that these 68 updates and corrections are appropriate and should be included in the filing. The Company has included these updates and corrections in its revised filing and OPC no longer has a position on this issue. However, we do not agree with the Company's specific adjustments to working capital and interest synchronization. With this exception we find the Company's adjustments to be appropriate.

17. Inflation Factor

The Company forecasts specific expenses such as wages, benefits and rents to bring them to the proper level for ratemaking purposes. For the remainder of items the Company applies an annual inflation factor of 2.9% to test year levels to forecast rate year expenses. The Company contends that if this adjustment is not allowed the Company will not earn the return authorized in this case because its expenses will be understated.

OPC asserts that this is inappropriate. The budgeted amounts that are specifically identified are "stretched", meaning that the Company expects to do better. The use of these stretched amounts ignores those amounts that will be reduced to meet the stretch. The use of an inflation factor also ignores possible employee reductions. OPC concludes that those expenses which were increased by the inflation factor should remain constant and operating expense as filed should be reduced by $5,920,499.

FCAN contends that rates should be set only on the basis of a demonstrated showing of reasonable and prudent costs, and that no arbitrary "factor" adjustments should be allowed. It agrees with OPC that expenses should be reduced by $5,920,499.

GTEFL has used 2.9% as the inflation factor which, in light of the Company's 3.0% growth in access lines, we find to be reasonable in predicting the amount of test year expense not specifically adjusted elsewhere. The use of a reasonable inflation factor addresses OPC's concern regarding "stretched" budget amounts. OPC's concerns that a blanket adjustment to these expenses may overlook future employee reductions is adequately addressed in the Company's wage adjustment.

18. Contract Labor

As discussed supra in our analysis of wage and salaries expense, the Company planned employee reductions which did not come about. Instead, a reduction to contract labor expense was made.

OPC asserts that it is appropriate to reduce contractor labor expense, net of the higher than anticipated salary expense for 1992. OPC calculates an intrastate reduction to expense of $8,975,537.

The Company agrees that an additional adjustment needed to be made to incorporate the estimated additional cost savings from the contract labor expense reduction. However, GTEFL argues that OPC improperly calculated the adjustment. The Company points out that OPC used information based on only the hourly contractor forces, and mistakenly assumed that the expense was much lower than it actually was, due to OPC's omission of operating expense associated with contractors paid on a lump-sum basis. The Company asserts that the proper amount of the adjustment is $4,981,949, as shown in Johnson Rebuttal Schedule BAJ-9. Johnson Rebuttal BAJ-8 provides the detail behind test year direct and allocated contractor costs charges to regulated operating expense. We have reviewed these schedules and find them to be reasonable. The Company added a contract labor expense adjustment to its revised revenue requirement. The Company argues that beyond the adjustments already made, no further adjustment is needed.

Upon review, we do not find OPC's analysis to be persuasive. We find that the Company has adequately shown that the reduction to contractor labor expense is partially offset by salaries, and that the appropriate adjustment to contract labor expense has been made.

19. Central Office Conversions

OPC contends that the savings associated with central office conversions should not be included in the filing. OPC further contends that absent any provision to include these savings, operating expenses should be reduced by $3,525,160 to reflect these savings.

The Company asserts that it has properly accounted for savings associated with central office conversions and that OPC's position is in error because it picks up savings which will occur over a 15-year time frame.

Based on the Company's rebuttal testimony, the amounts which OPC uses to represent savings from the central office conversions are the savings over a fifteen year period and are not an appropriate adjustment for the test year. We agree that only the going forward savings are appropriate for consideration in this case. Going forward savings are those savings in 1993 that are not present in the 1991 base year. The going forward savings can be calculated from Exhibit 138, Schedule SAI-1. GTEFL argues that this amount is so slight that OPC's entire adjustment should be rejected. However, we agrees with OPC that if these savings will be present on a going forward basis, they should be recognized. According to GTEFL's testimony and exhibits, the going forward savings not recognized in 1993 amount to $191,000. Thus, we shall decrease total company operating expense by $191,000, $146,393 intrastate, to recognize these savings.

20. Compensation Package

OPC argues that the increase in the Company's compensation package as a whole should be limited to the rate of inflation but has offered no testimony, exhibits, cross examination nor calculations to support an adjustment to limit compensation expenses.

GTEFL contends that it's compensation expenses as reflected in its Revised Direct Testimony are the appropriate amounts for ratemaking purposes because they represent prudent payroll expenses that are necessary to retain a properly trained and qualified work force. The expenses are based on market surveys and no evidence has been introduced to show that the levels are improper.

We find that there is nothing to suggest that the Company's compensation package should be limited to the rate of inflation. We agree with the Company that it's compensation expenses as reflected in the Company's Revised Direct Testimony are the appropriate amounts for ratemaking purposes with the following exceptions which are addressed elsewhere in this Order: Employee Concessions; Additional Severance and Early Retirement Pay; Fringe Benefit Expense; Supplemental Executive Retirement Plan; Bonus and Other Incentive Payments; Community Affairs Advertising; Relocation Expense; Wage and Salary Expense; and Contract Labor.

21. Customer Billing Services System

OPC contends that developmental expenses associated with the Customer billing Services System (CBSS) should be removed to represent an appropriate going forward level of expense. Test year operating expenses should be reduced by $2,551,625.

The Company has, as OPC contends, left developmental expenses in test year operating expense and applied the 2.9% inflation factor to that amount to produce a test year expense of $8,900,000. These costs were part of the data processing costs projected using the inflation factor, rather than specific identification. The 1992 costs are running about $15 million, so it appears that use of the inflation factor produces a conservative estimate. We find this to be appropriate.

22. Data Processing/Directory Revenues

The Company has data processing expense associated with directory advertising which the parties agree should be charged below the line. However, the amount of the adjustment is in dispute.

OPC asserts that test period expense should be reduced by $234,238. OPC argues that under FCC Part 32, all data processing expenses are charged to Account 6124 or 6724. Previously, a portion of the data processing expense associated with directory advertising was charged as a directory advertising expense and thus, a portion was considered below the line expense. OPC contends that the Company should be required to estimate the amount of directory related advertising. OPC's approximation is $750,000. OPC places one third of that below the line and applies a separations factor, for an adjustment of $234,238.

GTEFL agrees in theory with the adjustment. However, GTEFL has provided its own estimate of what the amount should be. The Company determined that in 1987, the last year that these expenses were charged to the directory expense account 6271, the account was charged with $48,000 of data processing expense. By utilizing inflation rates for the years 1988 through 1993, the Company recalculated this adjustment to be $20,301 on a total company basis ($15,560 intrastate).

OPC acknowledges that the $750,000 on which it based its adjustment was just a broad estimate. However, OPC does not agree with the Company's computation.

We agree with OPC and the Company that the data processing expense associated with directory revenues should be allocated below the line. We find that the Company has provided an estimate of the expense which has a more reasonable basis than OPC's broad-brush estimate. Since the Company has included the adjustment in its revised direct case, no further adjustment is necessary.

23. GTE Services Corporation

Allocations from GTE Service Corporation are based on each company's total operating expenses and operating taxes to the total of all companies' operating expenses and operating taxes. OPC argues that the allocations from GTE Service should be reduced by $200,357.

The Company requests that the gross receipts tax and franchise tax be unbundled from local service rates and reflected as a separate line item on the customers' bill. As a result of the unbundling, OPC asserts that GTEFL will experience lower expenses related to the gross receipts and franchise taxes. Thus, following witness OPC's logic, if operating expenses are reduced, the dependent allocations from GTE Service should also be reduced. The Company disagrees with the proposed adjustment.

We find that the gross receipts tax is an expense incurred by the Company and that there will not be any impact on the Company's share of GTE Service Corporation's allocation as a result of unbundling the gross receipts tax. The Company has indicated that it will continue to record the gross receipts tax as an expense regardless of unbundling. This being true, GTEFL's expenses will not be reduced due to the reflection of gross receipts as a separate line item. Therefore, we find that it is not appropriate for expenses to be reduced to reflect a lower allocation.

24. Service Fee Credit

OPC argues that a service fee credit made to GTEFL from GTE Service Corporation (GTESC) should offset regulated expenses to the extent that it applies to any regulated expenses. Since the charges to GTEFL from GTESC are basically above the line, it is OPC's view that the service fee credit belongs above the line as well to offset the costs that are incurred by the regulated operation. OPC asserts that operating expenses should be reduced by $1,492,829 to reflect this credit.

GTEFL asserts that the account in which service fee credits are recorded is not included in regulated operating income and is unrelated to regulated operations. The Company concludes that because the service fee credit is unrelated to any above-the-line expenses, it should not be used to offset these expenses.

OPC first based its proposed adjustment upon suspicion. GTEFL's explanation of the credit was incomplete in that it only addressed what should be recorded in the affected account, not what actually was recorded. During staff cross examination, OPC's witness testified that, based on recently provided documents, he concludes that the service fee credit did, in fact, relate to regulated accounts. The Company did not choose to recross OPC's regarding this view finding, nor did the Company avail itself of the opportunity to confirm or deny OPC's further evaluation through a rebuttal witness. Based on the cross examination testimony of OPC's witness, and absent Company rebuttal, we find that the service fee credit appears to be related to regulated operations and total company operating expenses shall be reduced by $1,916,112 as urged by OPC. Using the revised separation factors, the intrastate adjustment is be $1,489,437.

25. Network Provisioning

OPC asserts that the Company has not properly reflected the labor reductions from the network provisioning cost savings program and that operating expenses should be reduced by a minimum of $1,000,000.

GTEFL asserts that the Company has properly reflected the labor reductions from this program in its rate case filing.

We accept the Company's position. While OPC argues that the Company has not properly reflected the labor reductions from this program in its rate case filing OPC never supported its position with testimony or other evidence.

26. Regulatory Accounting for Software

OPC asks that we place revenues subject to refund while the issue of the accounting treatment for software is examined in a generic proceeding. OPC contends that the Company has a problem with its right to use (RTU) costs which would warrant placing funds subject to refund and including GTE in the generic investigation identified in Order PSC-92-0708-FOF-TL, issued in Docket No. 910980-TL. OPC asserts that this action will hold the customers harmless while we decide the appropriate treatment for software costs. The parties did not cross examine OPC regarding GTE's accounting for software costs. Capitalized software is limited to initial operating software only. This approach creates a mismatch of costs of software with the revenues the software produces in subsequent years.

The only testimony provided regarding the appropriateness of holding funds subject to refund pending the outcome of the generic investigation on the regulatory accounting for software was provided OPC. The Company contends that OPC has not presented any evidence which raises any colorable issue regarding the appropriate accounting for software. Therefore, the Company asserts that the request for an investigation and the request that funds be held subject to refund are improper. The Company further asserts that if there is to be an investigation it should be done on an industry-wide basis.

In its brief, OPC argues that Exhibit 39 shows that software expense in the test period of 1993 is substantially higher than the expense in 1990 or 1991. OPC concludes that the 1993 amount should be adjusted to remove the spike of $8 million included the 1993 projected numbers.

Upon review, we find that OPC has presented no testimony, exhibits nor cross-examination which raises any colorable issue regarding the appropriate accounting for software. The adjustment made regarding Right to Use Fees is adequate protection and no funds shall be held subject to refund. It is unnecessary for this Docket to remain open while we decide the appropriate regulatory treatment of initial placements of software.

27. Chamber of Commerce Dues

GTEFL included $95,889 for Chamber of Commerce dues in its filing and argues that this supports economic development. GTEFL asserts that community growth helps keep rates low but did not elaborate how community growth keeps rates low. OPC does not believe that costs associated with economic development should be borne by the ratepayer.

We are not persuaded by the Company's arguments that economic growth keeps rates low. The Company has not demonstrated this or quantified what savings may have accrued to the ratepayers as a result of the Company's participation in the Chamber of Commerce. We agree that expenditures associated with economic development should not be borne by the ratepayers. It is our view that potential benefits will accrue to the shareholders, not the ratepayers. We shall disallow the entire amount of $95,889 total company to eliminate Chamber of Commerce dues. The intrastate amount is $74,537. Applying the Company's inflation factor of 1.058841 the 1993 amount is $78,923.

28. Right to Use Fees

GTEFL asserts in Rebuttal Testimony that the appropriate amount of right to use (RTU) fees for rate making purposes is included in the Company's direct case. No other party has taken a position on this issue.

An examination of Exhibit 38, pages 431-435, reveals that the Company has budgeted RTU fees at a higher level than those included in test year expense, as developed in Exhibit 85, Tab 74. The budgeted amounts produce a level of expense approximately $8 million higher than historical costs. This $8 million "spike" has been taken out of the test year by the Company's use of the inflation factor applied to 1991 costs. We agree with the Company that the appropriate adjustments to the RTU fees have been made in

Exhibit 85, Tab 74 and that the amount included in the 1993 projected test year is appropriate.

29. <u>Transfer of MARK Ownership</u>

As discussed in our consideration of data processing expense <u>supra</u>, GTEFL transferred MARK ownership to GTE Service Corporation (GTESC) in order to make MARK a standard system for all of the GTE Telephone Operations.

GTEFL deemed it appropriate to transfer the MARK system because of the high demands placed on the Company for administrative functions associated with MARK by other GTOCs. The Company contends that the transfer was a net benefit because it will use the MARK system, along with additional enhancements, at less cost than it could on a stand alone basis.

Upon review, we find that the Company was adequately compensated in the form of the various benefits it received from GTESC for the transfer of the MARK system. The system is now in use by other GTE companies with the necessary support being provided by GTESC. A review of the record does not indicate that the transfer of ownership in the MARK system to GTE Service Corporation was not in the best interest of GTEFL. We will take no action on this matter at this time.

D. <u>GS&L</u>

The Company contends that the amount of GS&L contained in the Company's revised direct case was prudently incurred and is appropriate for ratemaking purposes.

OPC contends that the amount of GS&L contained in the Company's revised direct case was not prudently incurred and is not appropriate for ratemaking purposes and recommends adjustments which total ($14,260,000).

The GS&L amounts allocated to the Company are addressed in other issues <u>infra</u>, where we have found that adjustments which total ($6,708,000) are appropriate.

1. <u>Chauffeur Services</u>

GTEFL included in its expenses costs for providing chauffeur service. This service is used by GTE's executives at the Service Corporation and Dallas headquarters for travel to and from multiple business functions, and for transportation to and from airports and railroad stations.

OPC contends that chauffeur service is not a legitimate business expense. OPC, therefore, urges that we reduce expenses by $15,431. FCAN agrees with OPC's position.

The Company contends that chauffeur service is a legitimate business expense. GTEFL maintains that there are strong security reasons for providing chauffeur service and that this service maximizes executive productivity. The Company also argues that chauffeur service avoids substantial expenses that would be incurred through alternative modes of transportation, and that OPC's position fails to account for these alternative costs.

Based upon the arguments espoused by each of the parties who took a position on this issue, we find that the costs for chauffeur service should not be borne by GTEFL's ratepayers. Accordingly, we have reduced allocated expenses by $19,806. Using the revised separation factors, the intrastate portion is $15,396.

2. Data Processing/GTE Data Services

GTEFL purchases data processing services from an affiliated company, GTE Data Services (GTEDS). The expenses for these services include an embedded rate of return of 24.9 percent on shareholder investment of $293,787,000. OPC argues that 24.9 percent is excessive and that GTEDS' rate of return should be limited to the current FCC authorized overall rate of return, or 11.25 percent. Accordingly, OPC contends that we should reduce data processing expenses by $4,431,863. FCAN agrees with OPC's position on this issue.

The Company argues that the data processing expense of GTEFL should not be reduced because of the return earned by GTEDS. According to GTEFL, the services provided by GTEDS are not only necessary and legitimate, but reasonably priced. The Company asserts that the rates charged to GTEFL are based on market prices determined by reference to actual transactions between nonaffiliated parties. In addition, GTEFL argues that GTEDS charges GTEFL prices equal to or lower than those charged to all other GTEDS customers for similar services.

GTEFL also argues that regular comparisons of GTEDS' rate of return with that of its competitors assure the competitiveness and reasonability of its charges. According to GTEFL, over the past five years, GTEDS' competitors have earned an average return on equity of 26.7 percent compared to GTEDS' average of 24.9 percent. Finally, the Company argues that GTEDS' growth in nonaffiliated business in the past five years has far surpassed that of the industry as a whole. The Company thus concludes that this proven ability to compete in the marketplace confirms that GTEDS' prices are competitive.

When dealing with non-arms' length transactions such as these, this Commission generally employs a higher standard of scrutiny. This is consistent with Order No. 10418, issued in GTEFL's last rate case. Although we accept that GTEDS is entitled to a reasonable return on its investment, we do not agree that GTEFL's ratepayers should be required to pay an embedded rate of return on equity of 24.9 percent for GTEDS' services.

We also do not accept that a company which does substantially all of its business (90 percent) with a regulated affiliate should be allowed to earn a return so greatly in excess of that allowed the regulated affiliate. According to the FCC's regulations regarding this same issue (47 CFR Ch. I, Part 32.27(d)), when a nonregulated affiliate provides substantially all of its services to regulated affiliates, the nonregulated affiliate must charge the regulated affiliates at cost. We believe that 90 percent of GTEDS' business represents substantially all of its service.

Based upon these considerations, we find that GTEDS' charges for data processing services includes an excessive rate of return on equity. Accordingly, we have reduced total company data processing expenses by $5,725,930. Using the revised separation factors, the intrastate portion is $4,409,268.

3. Supplies/GTE Supply

GTEFL purchases many of its materials and supplies from GTE Supply (GTES), pursuant to an agreement dated February 10, 1988. The prices charged for these materials and supplies are determined by the market rather than at cost.

OPC argues that, since prices are not based upon cost, GTES, as a nonregulated affiliate of GTEFL, is potentially able to reap excessive profits at the expense of GTEFL's ratepayers. OPC believes that purchases from GTES should be charged at cost, plus a reasonable rate of return on GTES' investment. Accordingly, OPC urges that we remove those amounts in excess of cost on materials and supplies capitalized and included in plant in service for the 1991 test year, as well as for 1992 and 1993.

According to GTEFL, GTES' prices are based upon annual sales of over $100,000,000 to approximately 2,500 nonaffiliated customers. GTEFL points out that, under the February 10, 1988 agreement, GTES is bound to charge GTEFL at or below the prevailing market prices and that GTEFL, therefore, receives an average 13.67

percent discount below like transactions between GTES and nonaffiliates. GTEFL also provided an independent study which demonstrated that GTES' prices are approximately 12 percent lower than the average of GTES' two lowest-priced competing vendors, and approximately 21 percent lower than the average of all competing vendors combined. In addition, GTEFL contends that, due to the volume of business transacted between GTES and nonaffiliates, GTES is able to charge GTEFL approximately 2.5 to 3 percent lower than if there were no nonaffiliated transactions. Finally, GTEFL argues that, in addition to pricing advantages, GTES maintains nationwide warehousing capabilities and standard information systems, which contribute to efficient order processing and reduced administrative and transactions costs for GTEFL. GTEFL, therefore, contends that it is reasonable for purchases from GTES to be based upon the prevailing market prices.

We agree that GTES is entitled to a return on its investment in inventory. We do not agree that the general body of ratepayers should be subjected to potential predatory pricing by nonregulated affiliates. At the same time, we do not wish to discourage the efficiencies and economies of scale engendered through consolidation and affiliated transactions. Accordingly, we find it appropriate to disallow one-half of GTES' embedded return on investment over the current FCC authorized overall rate of 11.25 percent. This results in an adjustment reducing intrastate plant in service by $1,182,011, the depreciation reserve by $171,392, operating expense by $73,982, and depreciation reserve by $78,012.

4. Network Sales Expense

During the test year, GTEFL made payments of $9,731,765 to GTE Communication Corporation (GTECC), a wholly owned subsidiary. The payments are primarily for the sale of regulated network services. However, the payments are not based on network service revenues, but rather on a percentage of GTECC's sales expense.

OPC compared the total amount of GTEFL's payments with its estimated increase in local service revenues for 1992 and 1993. OPC projected the increase in local service revenues over that period to be approximately $44 million. OPC argues that most of these increases are due to increased access lines and projected increases in vertical services. OPC also estimated that, as a result of the $9.7 million in sales expense, GTECC will generate approximately $3.76 million in network sales. Based upon its calculations, OPC argues that network sales commissions of $9.7 million are not justifiable. OPC, therefore, urges that we reduce this expense by 75 percent, or $6,039,682.

GTEFL contends that the revenue figure used by OPC is not an annualized figure and that it is, therefore, understated. However, the Company did not provide an annualized revenue figure. Moreover, GTEFL's position that the figure is understated is not supported by the record.

The Company further contends that OPC did not take into consideration that GTECC provides a substantial service in retaining customers on the network. According to GTEFL, without the sales force, more customers would elect alternative networks which would erode network revenues. GTEFL failed, however, to quantify the substantiality of this service, such as how much revenue it believes it would lose without this sales force.

GTEFL also argued that it is cost efficient to have the sales force reside at GTECC, and cited a study which it contends supports this position. However, this study is not a part of the record.

These transactions are not arms-length transactions, and are subject to a higher degree of scrutiny by this Commission. We agree with OPC that sales expense of $9.7 million to generate an estimated $3.76 million in network sales does not appear to be a bargain for GTEFL and its ratepayers. However, it appears that OPC's position fails to account for the benefit of maintaining existing revenue levels. Yet, while GTEFL's arguments regarding erosion of network revenues and economies of scale have merit, they have not been adequately quantified in the record. Accordingly, we find that it is appropriate to reduce network sales expense by 25 percent, or $2,432,941 in total company expense. The intrastate amount of this reduction is $2,013,227. Applying the Company's inflation factor of 1.058841, the 1993 amount is $2,131,688.

5. Charges for Software Rights

GTEFL pays right-to-use fees for software, developed and owned by AG Communications Systems (AGCS), designed to run its GTD-5 switches. OPC argues that AGCS is earning an excessive rate of return on these affiliated transactions, and recommends that we reduce expenses by $2.5 million. GTEFL argues that AGCS is entitled to these fees and that such fee arrangements are common in the telecommunications industry. GTEFL further argues that AGCS' rate of return is only 3.2 percent.

At the hearing, however, OPC argued that, based upon recent discovery responses from GTEFL, it had learned that the 3.2 percent return was not a return on investment, but on total investment, which includes all current assets. In addition, the 3.2 percent return figure quoted by the Company included the nonrecurring effects of a $59.1 million extraordinary loss, and $49.1 million due to restructuring. When OPC recalculated AGCS' rate of return on equity, excluding the extraordinary loss and the restructuring, it came up with a return of 26.51 percent for 1991, and 22.99 percent for 1990. However, OPC failed to provide sufficient evidence in the record upon which to recalculate AGCS' equity return.

Accordingly, although it appears that AGCS may be earning an excessive rate of return on equity, any adjustment would be entirely too speculative based upon the evidence of record.

6. Integrated Computer Graphics System Expense

The Company has included expenses for an Integrated Computer Graphics System (ICGS) in its filing. OPC argues that these expenses are not appropriate since the project has largely been completed. OPC further argues that an adjustment should be made to account for all the savings associated with implementation of the system. OPC recommends that we reduce ICGS expense by $718,665.

GTEFL argues that, even though the ICGS system was completed in 1991, it will incur costs in future years to maintain the system. It further argues that, since it included only $319,000 of the ICGS cost in this filing, OPC's proposed adjustment would produce a negative expense of $615,000.

Since GTEFL has demonstrated that there will be ongoing expenses associated with the ICGS system, we do not find OPC's arguments to be persuasive. Moreover, the amount of expense included in the filing can hardly be deemed unreasonable. Accordingly, we have made no adjustment for ICGS expense.

7. Capital Carrying Costs from Affiliates

GTEFL's filing includes costs from affiliates which provide services to the Company. These affiliates charge a return, or capital carrying charge, on assets which are deemed to be common assets, and "gross-up" the return for federal and state income taxes.

OPC contends that the returns charged by these affiliates are excessive because the entire overall rate of return, which is comprised of elements of debt and equity, is being "grossed-up" for income tax purposes. OPC argues that, to the extent a capital structure includes debt, the interest is deductible for income tax purposes and, therefore, it is inappropriate to "gross-up" the overall return. Accordingly, OPC contends that we should reduce intrastate expenses by $500,000.

GTEFL argues that OPC's estimate of the impact of revising the return on investment gross-up component of the shared asset allocation is overstated. The Company also points out that OPC's proposed adjustment is only an estimate and that it is completely unsupported by any workpapers or other analyses. GTEFL asserts that the impact on its allocated portion of shared rent revenue and shared asset expense is only $30,268 and $93,628, respectively.

In its revised filing, GTEFL has reduced shared rent revenue by $30,268 and shared asset expense by $93,628. We have reviewed the Company's calculations and they appear to be accurate. No further adjustment is necessary

8. Affiliated Transactions

OPC proposes that this Commission open an investigation into transactions between GTEFL and its affiliates. According to OPC, such an investigation is warranted because it appears that GTEFL's affiliates are earning equity returns of approximately 25 percent through transactions with GTEFL. FCAN agrees.

GTEFL argues that it has submitted competent, substantial evidence that its affiliated transactions are fair and provide significant benefits to GTEFL. It further states that no proof has been offered to cast doubt upon these transactions, and that an investigation would, therefore, be unwarranted.

We note that numerous issues in this proceeding address GTEFL's affiliated transactions, and find that the concerns raised by OPC and echoed by FCAN are adequately addressed in this proceeding. Accordingly, we do not find that a separate investigation GTEFL's affiliated transactions is warranted.

9. Capital Carrying Charges

As set forth in Section III of this Order, Stipulations, we have approved a stipulation that the capital carrying charge should be offset by the amortization of JDITC. Accordingly, the Company has reduced taxes by $16,622. We find no further adjustment to be necessary.

E. Imputation of Inside Wire Expenses/Revenues

This is an issue which we considered recently in the United Telephone rate case (Docket No. 910980-TL). In that case, we decided that, since Rule 25-4.035(2)(a), Florida Administrative Code deregulated inside wire maintenance and installation, United should continue to book revenues, expenses and investment relating to inside wire activities below the line--until going to rulemaking for all local exchange telephone companies.

In 1985, in Docket No. 830490-TP we determined that inside wire should be deregulated on a wholesale basis. However, we also ordered all LECs to unbundle the price for inside wire maintenance from the basic access line rate to enable customers to take advantage of the option they had to get someone other than the LEC to maintain inside wire. On the heels of this action, however, the FCC issued an order, in Docket 79-105, which mandated that all LECs should deregulate inside wire services by January 1, 1987. Since it appeared that we had been federally preempted by the FCC's action, we ordered the Florida LECs to deregulate both inside wire and CPE by January 1, 1987.

It now appears that the FCC has softened its initial position regarding inside wire regulation. In its Third Report and Order in CC Docket No. 79-105, released February 14, 1992, the FCC permitted states to impute the revenues and expenses relating to inside wire services above the line. Also, although it has encouraged states not to regulate inside wiring services, the FCC clarified that it has not preempted regulation of prices, terms and conditions.

OPC argues that the existence of Rule 25-4.0345(2)(a), Florida Administrative Code, does not preclude this Commission from imputing revenues and expenses in a rate case, just as it does for Yellow Pages. While we might agree with OPC's end result, we do not agree with how it arrived there. The treatment of Yellow Pages is expressly authorized in Section 364.037, Florida Statutes. Inside wire is not. Moreover, we have made no policy determination to impute inside wire revenues and costs above the line. Further, GTEFL's circumstances do not differ significantly from those found in United, except that, for GTEFL, inside wire maintenance services are provided through GTECC, a wholly owned subsidiary, rather than as a below-the-line accounting separation.

OPC urges that we impute the revenues and expenses from simple inside wire only. There is general agreement that inside wire installation is available from many providers. However, this does not appear to be the case for simple inside wire maintenance. A significant proportion of GTEFL's customers receive inside wire maintenance on a monthly basis from GTEFL, at a price of $.75 per month. The gross margin on inside wire services is substantial. Maintenance contracts for inside wire are sold by GTEFL's regulated service representatives at the time of the initial service order and during subsequent contacts with customers. Inside wire repairs are made by the Company's regulated service technicians or by contract personnel assigned to the non-regulated part of the business. Billing and advertising is accomplished through billing and bill inserts with local telephone service. In short, inside wire services are able to share costs with the regulated services. Some of the shared costs give GTEFL's inside wire services an advantage over its competitors, who do not have access to customers in the same way as GTEFL. OPC acknowledges that there is no evidence in the record of GTEFL acting to the detriment of customers, but asserts that there is the potential for such abuse.

GTEFL argues that it makes no sense to regulate a service after it has operated in an unregulated environment for 6 years and the Company has adjusted to operate in a competitive environment. GTEFL also disputes the numbers provided by OPC regarding the value of inside wire maintenance services. The Company argues that if we impute revenues, investment, and expenses for simple inside wire maintenance only, the impact will be less than OPC asserts. According to GTEFL, OPC's figures include all inside wire revenues, not just simple wire maintenance. As such, it overestimates the revenue, expense, and investment related to simple inside wire. GTEFL further argues that OPC has failed to make any allocation of general and administrative costs. Including these costs further reduces the profit level as portrayed by OPC.

Although we cannot verify the appropriateness of GTEFL's adjustments, we find that simple inside wire maintenance contracts should not be the focus of any imputation. While there is information in this record to indicate that GTECC enjoys an advantage in the provision of inside wire as a result of its association with the provision of monopoly telephone service, the issue is not unique to GTEFL. All Florida LECs offer unregulated inside wire services. Moreover, there is a dispute regarding whether Rule 25-4.0345, Florida Administrative Code, must be revised before it is appropriate to impute revenues and expenses above the line. In any case, in the United Rate case, we decided not to impute inside wire services above the line, but to address this issue through rulemaking. Since we have decided to go to rulemaking on this issue, we find that it would be inappropriate to make such an adjustment in this proceeding.

F. Post Retirement Benefits Other Than Pensions

1. Method of Accounting

Statement of Financial Accounting Standards No. 106 (FAS 106) requires accrual accounting for post retirement benefits other than pensions. Also known as OPEBs, these benefits are essentially retiree medical and life insurance. GTEFL supports the use of FAS 106 for ratemaking purposes. OPC and FCAN do not support the use of FAS 106 for ratemaking and instead recommend the pay-as-you-go method.

For GTEFL, FAS 106 is a requirement for financial reporting purposes and becomes effective for the first fiscal year after December 15, 1992. The Company's position is that the accrual accounting required by FAS 106 will result in a better match between costs and the events giving rise to those costs. GTEFL also contends that the OPEB costs are a form of deferred compensation that should be recognized when the employees render service to earn those benefits. The incremental intrastate increase in operating expense due to the implementation of FAS 106 is $21,913,167, according to the Company, based on total company net periodic costs of $45,976,000. GTEFL further points out that the revenue requirement will eventually be lower under the accrual method than under the pay-as-you-go method, because it will create a deferred pension liability that will lower working capital and rate base.

OPC opposes the use of FAS 106 for ratemaking purposes for a number of reasons. First, OPC argues that GTEFL's benefits plan will be restructured in the future to reduce costs and that there is no assurance that the accrued OPEB allowance will actually go to pay benefits, since OPEBs are not a legal liability. Second, OPC asserts that the calculations behind FAS 106 are unreliable, and that FAS 106 is the most expensive accounting method to use for the next 20 years. OPC contends that the ratepayers will benefit from increased accuracy in estimating OPEB costs and cost containment that will occur in the future. Third, OPC contends that FAS 106 assigns prior period costs, i.e., the transition obligation, to current ratepayers, resulting in an intergenerational inequity. OPC also notes that FAS 106 is designed for financial reporting purposes, and recommends that, for ratemaking purposes, we should adopt the pay-as-you-go method for accounting for the cost of OPEBs.

In response to OPC's first argument, GTEFL argues that the adoption of FAS 106 for accounting and ratemaking is not dependent on whether OPEBs are contractually binding. The Company argues that if it were to reduce benefits in the future, then the costs calculated under FAS 106 would also be reduced. Regarding the reliability of the estimate of FAS 106 costs, GTEFL argues that FAS 106 contains a "corridor" approach to accommodate changes in assumptions and in experience being different from assumptions. As for OPC's third argument, the Company asserts that the transition obligation is amortized over the remaining working life of the employees, which matches the costs to each year the employee provides service.

Upon review, we shall use FAS 106 for ratemaking purposes. FAS 106 matches the cost of OPEBs to the period in which the employee earned the benefit. Continuing the pay-as-you-go method will cause future customers to pay for costs related to past years. It does appear that the estimates of FAS 106 costs will change. However, we can monitor such changes through existing surveillance methodology.

OPC noted that discount rates vary among companies. A survey of 37 large companies conducted in September, 1991, indicated a range of discount rates from 7.25 percent to 9.50 percent. Accordingly, OPC recommends that, if we adopt FAS 106 for ratemaking purposes, we should use GTEFL's cost of capital as the discount rate. GTEFL used a discount rate of 8.00 percent.

GTEFL contends, however, that if a discount rate higher than 8.00 percent is used, the increased rate should also be used to determine its return on equity. GTEFL also states that FAS 106 requires that the discount rate be the same rate that is used for the pension cost determination, and refers to paragraph 188 of FAS 106. We have reviewed FAS 106 and do not agree with GTEFL's interpretation.

Regarding the selection of an appropriate discount rate, paragraph 31 of FAS 106 states that "employers shall look to rates of return on high-quality fixed income investments currently available whose cash flows match the timing and amount of expected benefit payments."

We find that the quoted language does not support using the Company's cost of capital as the discount rate. On the other hand, we find a discount rate of 8.00 percent to be too low. Indeed, GTEFL's witness agreed that AA rated public utility bonds currently yield 8.29 percent. We find that the yields on AA rated utility bonds meet the criteria for selecting an appropriate discount rate. We note that, in Florida Power Corporation's most recent rate case, we adjusted the discount rate to 8.25 percent, based upon the AA rated utility bond yield. We find that 8.25 percent is the appropriate discount rate to use in this case, since AA rated utility bonds are high quality fixed income securities, and since 8.25 percent is closely in line with the AA utility bond yield.

A 100 basis point increase in the discount rate results in an 8.8 percent decrease in FAS 106 expense. Since we have increased the discount rate by 25 basis points, we find it appropriate to reduce GTEFL's FAS 106 net periodic costs by 2.2 percent, or $1,014,220 as shown below:

| COST ALLOCATION | | | REDUCTION |
|---|---|---|---|
| Intrastate Costs: | | | |
| Rate Base | | | |
| Plant In Service | $118,692 | | |
| Reserve | 15,514 | | |
| Total Rate Base | | $134,206 | |
| Operating Expense | | 648,402 | |
| Depreciation Expense | | 4,276 | |
| Total Intrastate Cost | | | $786,884 |
| Interstate Costs | | | 220,964 |
| Non-Regulated | | | 6,372 |
| Total FAS 106 Costs | | | $1,014,220 |

2. Treatment of Unfunded Liability

In its MFRs, GTEFL reduced working capital by the amount of the unfunded FAS 106 liability. The Company contends that, under the accrual method, the revenue requirement will become lower with the passage of time because the deferred pension liability (the unfunded FAS 106 liability) will reduce working capital and thus, rate base.

OPC argues that the unfunded liability should be treated as a zero cost source of capital. OPC argues that treating the unfunded liability as a reduction to working capital is a "one legged entry."

In our most recent rate cases ( United Telephone Company of Florida and Florida Power Corporation) we reduced working capital by the amount of the unfunded liability. See Orders Nos. PSC-92-0708-FOF-TL and PSC-92-1197-FOF-EI. We find that this is the appropriate treatment. Accordingly, we reduce working capital by the amount of the unfunded liability, based upon our adjustments for the discount rate, supra, and the deferral, infra.

3. OPEB Costs/Certified Actuarial Study

GTEFL's OPEB costs are based upon an actuarial study, which was made available to all parties. OPC argues that, since GTEFL chose the actuary and provided the assumptions, the actuarial study should be certified for credibility purposes. FCAN agrees with OPC.

The Company states that TPF&C performed the study. According to GTEFL, TPF&C, and not GTEFL, provided the assumptions. We note that FAS 106 does not contain any requirement that a company use a certified actuary or have a certified actuarial study, nor is such a study part of the disclosures under FAS 106. Moreover, we have reviewed the accounting workpapers related to FAS 106 costs and their underlying assumptions, and find that the amounts are accurately represented. Accordingly, a certified actuarial study is not required.

4. OPEB Costs for Nonregulated Services

OPC and FCAN argue that GTEFL's non-regulated services are priced to recover only the pay-as-you-go OPEB costs. Thus, they contend that GTEFL's regulated rates should only reflect the pay-as-you-go costs. In support of its position, OPC relies on a letter from GTE to the Financial Accounting Standards Board, concerning the option of immediate recognition of the transition obligation as opposed to the amortizing of it, and why that option should be different for regulated versus nonregulated companies.

GTEFL argues that the prices of regulated and nonregulated services cannot be compared. GTEFL also asserts that both its regulated and nonregulated divisions will account for OPEB costs unless FAS 71 is determined to apply. GTEFL further takes issue with OPC's reliance upon the letter to FASB, and notes that GTEFL has not proposed immediate recognition of the transition obligation in this proceeding.

In the alternative, OPC proposes that if we adopt FAS 106 for ratemaking purposes, some of GTEFL's FAS 106 costs should be assigned to GTECC, its non-regulated subsidiary. OPC contends that we should make this adjustment because inside wire and CPE have been deregulated.

GTEFL disagrees with OPC's proposed adjustment. The Company argues that retirees of GTECC performed "regulated work" for a regulated company, and that GTECC's OPEB costs are not a part of this filing. GTEFL also notes that GTECC employees have a separate actuarial study.

Upon review, we find that GTEFL has adequately refuted the scant evidence offered by OPC for this adjustment. We, therefore, reject OPC's proposed adjustment.

5. OPEB Benefits - Substantive v. Written Plan

OPC contends that the OPEB plan (which constitutes the legal liability to which GTEFL has committed) should be the basis for evaluating the cost of this benefit for ratemaking purposes, and that the rates should not include costs for which the company has no legal liability.

GTEFL contends that this issue in not applicable since the substantive plan does not differ in any material respect from the written plan and the written plan was used for calculating the post retirement benefits under FAS 106. The substantive plan represents the terms of the post retirement benefits plan as understood by the employer and the employees.

According to FAS 106, the written plan provides the best evidence of the exchange of benefits for services between the employee and the employer. However, FAS 106 further explains that the substantive plan should be used if the Company has a past practice of communicating cost sharing provisions (or benefit increases) to employees.

We note that our use of FAS 106 for accounting and ratemaking purposes is not dependent on whether OPEBs are contractually binding. Further, since the substantive and written plans do not differ in any material respect, we find that the written plan is appropriate for determining OPEB costs.

6. SFAS 106 Expense/Ratemaking Purposes

OPC contends that any costs included under FAS 106 costs which do not represent a legal liability should be disallowed for ratemaking purposes.

GTEFL argues that it has properly accounted for the adoption of FAS 106, and that these costs should be included for ratemaking purposes.

As noted above, we have reviewed GTEFL's calculations of FAS 106 costs and the assumptions behind such calculations. Other than our adjustments to the discount rate and the deferral of a portion of the FAS 106 costs until 1994, the latter of which is discussed infra, we find that the FAS 106 costs are properly included for ratemaking purposes.

7. Administrative Fees

According to GTEFL, pension administrative fees are paid directly from the pension plan. The Company began paying from the pension plan in 1987. Since the payments are to an affiliate, the Company has continued to pay additional administrative fees directly to avoid possible violation of ERISA.

According to OPC, these pension and administrative fees are paid to an affiliated company for a pension plan that is significantly overfunded. OPC argues that the ratepayers should not be penalized because the Company has chosen to use an affiliated company for administrative functions. OPC asserts that we should reduce expenses by $578,961.

GTEFL argues that it is paying out of the fund the maximum amount of administrative fees allowable under ERISA and that, due to ERISA restrictions, the additional administrative fees cannot be paid from the fund. The Company also maintains that the costs to manage the various pension plans will be incurred whether the function is performed by an affiliate or a nonaffiliate. GTEFL also argues that it does not matter that the expenses are paid to an affiliate since only the prevailing price is recorded above-the-line.

GTEFL further argues that GTE Investment Management Corporation has an excellent record of maintaining high returns on pension plan assets, which has resulted in lower pension costs to GTEFL and that, if the entire payment were made out of the fund, pension expense would increase since the fund's asset value would decrease. Accordingly, GTEFL maintains that the ratepayers benefit from a negative pension expense.

We find that GTEFL would incur the pension expense whether it was paid from the pension fund or directly. There is no evidence that the amount paid to the administrator is not prudent or reasonable. It appears that the only objection to the expense is that it should have been paid by a different vehicle. However, it also appears that the outcome would be the same regardless of the source of the payment. Accordingly, the administrative fees shall not be disallowed simply because they were paid directly instead of out of the fund.

8. Pension Expense

There are many assumptions built into the calculation of total pension liability in order to determine the amount of each year's funding requirements. One such assumption is the anticipated composite rate of future increases in employee compensation. For the purpose of calculating the pension liability for the test year, GTEFL has anticipated a future wage increase of 6 percent.

OPC argues that GTEFL's projected wage increases are only 2.96 percent for 1992 and 3.08 percent for 1993. OPC, therefore, advocates a reduction to the Company's projected wage increases in the calculation of pension expense.

The Company distinguishes between general wage increases and merit wage increases. For the years 1989 through 1991, GTEFL's average wage increase has been 3.08 percent for general and 3.5 percent for merit, for a total of 6.58 percent. Although there are two components to wage increase, for the purpose of this proceeding, the Company increased the labor expense only by the estimated inflation rates of 2.96 percent for 1992 and 3.08 percent for 1993.

A wage increase assumption which an actuary uses in the calculation of pension funding requirements should be based upon an employee's long-term wage progression. Therefore, the wage increase assumption used in the pension calculation may be different than the actual increase for any particular year. Given the past history of GTEFL's actual wage increases, which include both inflation and merit adjustments, reflecting only the wage inflation rate may not be appropriate for the purpose of calculating the pension requirement. Indeed, during the period between 1989 and 1993, GTEFL's average wage increase is 3.67 percent for inflation and 2.1 percent for merit, for a total of 5.77 percent. Given that average, we cannot say that the 6 percent assumption used by GTEFL for the pension calculation is unreasonable. Accordingly, we find that no adjustment is necessary.

9. Deferral of FAS 106 Costs

The issue is whether GTEFL should be allowed to recover the full cost of providing post retirement benefits other than pensions beginning in 1993, or should defer a portion of these costs to 1994. OPC argues that it is inappropriate to use the FAS 106 methodology in any event, since such methodology would include costs for which GTEFL has no legal obligation to pay. However, at the hearing, OPC agreed that, if such a methodology is approved for ratemaking purposes, and if there are projected increased earnings after the test year, it would be appropriate to defer a portion of the FAS 106 costs in this proceeding.

GTEFL argues that there is no 1994 budget data in the record and that it is unaware of any changes occurring in 1994 relative to the 1993 rate year which will produce any significant increase in earnings. Therefore, the Company argues that it would be inappropriate to defer any portion of the FAS 106 costs to a later year.

OPC requested GTEFL's 1994 budget information. However, the Company has not supplied any preliminary budget data for either 1993 or 1994. Although the record is not clear in this regard, GTEFL may not have begun budgeting for 1994.

One significant difference for 1994 is that there will no longer be any phase-downs or shifts in Subscriber Plant Factor (SPF) and Dial Equipment Minute (DEM). The last effect of SPF and DEM shift will be effective in January 1993. At the hearing, GTEFL witness Wellemeyer stated the following with regard to SPF and DEM:

> Most of the pro forma impact is caused by changes in the Part 36 rules for calculating the subscriber plant factor and the dial equipment minutes factor, which both shift costs from the interstate to the intrastate jurisdiction. It's interesting to recall that these changes began in 1986 and have recurred on the first of each year since. The impact of these changes on jurisdictional cost is presented in my testimony. It equates to an increase in annual revenue requirement of $19.7 million in terms of 1991 costs. On January 1st of each year, the Company has incurred a new additional intrastate revenue requirement on the order of $19.7 million. Meanwhile, tariffs have been filed annually with the FCC, recognizing the corresponding reduction in interstate revenue requirement.
>
> However, no tariffs have been filed in the State of Florida, until now, to recover increased revenue requirement caused by the Part 36 rule changes. Due to these changes alone, the Company has absorbed additional revenue requirements of approximately $102 million without a rate increase.

The revenue requirement impact associated with the shift and phase-down of SPF and DEM is significant. Further, since GTEFL is not aware of any significant changes in 1994, it should experience an improvement in earnings, assuming the same growth relationship in revenue, expense and rate base as the prior year.

Since GTEFL did not provide projected data for 1994, we have estimated 1994 earnings based upon 1993 data, using the same growth relationships in adjusted intrastate revenues and adjusted total company expenses and rate base as the Company projected for 1992 and 1993, as depicted in the following schedule:

**Estimated Change in 1994 Revenues**
**(All dollar figures x 1,000)**

| | 1993 | 1994 | % Increase |
|---|---|---|---|
| Intrastate Revenues | $832,012 | $871,441 | 4.74% |
| Total Company: | | | |
| O&M Expense | 545,074 | 555,975 | 2.00% |
| Depreciation Expense | 229,855 | 244,803 | 6.50% |
| Other Taxes | 50,797 | 53,719 | 5.75% |
| Total Expense | 825,726 | 854,497 | |
| Total Company: | | | |
| Plant in Service | 3,462,981 | 3,688,184 | 6.50% |
| Depreciation Reserve | (1,006,732) | (1,251,680) | |
| Net Plant | 2,456,249 | 2,436,504 | |

Applying the 1993 separations factors to the estimated 1994 total company rate base and expenses, and holding constant the Company's proposed capital structure, it appears that GTEFL will experience an improvement in intrastate earnings of approximately $23 million, a significant portion of which will be due to the elimination of SPF and DEM phase-downs.

We note that GTEFL itself could reduce FAS 106 costs. The Company intends to establish a collectively bargained or bargaining unit Voluntary Employees' Beneficiary Association (VEBA) trust, as defined under Section 501(c), IRC, to fund its FAS 106 obligation. Retiree benefits are currently included in GTEFL's union contract, and are bargained each time the contract expires. The current union contract expires on July 31, 1993. Pursuant to Section 501(c)(9), IRC, a bargaining unit VEBA must be bargained at the time benefits are bargained. Bargaining unit employees represent 75 percent of the total GTEFL employees.

A bargaining unit VEBA has more tax advantages than a non-bargaining unit VEBA. A VEBA could prevent a company from changing or eliminating benefits, and would give employees greater assurance that they would receive OPEBs. Therefore, GTEFL could use the establishment of a VEBA as leverage to bargain for cost saving measures for OPEBs and for total compensation.

We also note that GTE Corporation, GTEFL's parent company, has not decided whether to immediately recognize the transition obligation or to amortize it. This only adds uncertainty to the final cost of GTEFL's FAS 106 expense.

Since we have projected increased earnings of approximately $23 million for 1994, and since FAS 106 costs may be reduced anyway, we find it appropriate to require GTEFL to defer the excess of the incremental intrastate FAS 106 costs above $11,264,765, the amount included in cost of service. However, it shall not be required to defer more than $10,000,000. This will delay recognition of part of the FAS 106 costs until after the test year, when increased earnings will absorb the deferred costs, thereby mitigating the effect on GTEFL's ratepayers. This adjustment is consistent with our decision in the most recent United Telephone Company rate case. See Order No. PSC-92-0708-FOF-TL.

We note that paragraph 364 of FAS 106 allows deferral of FAS 106 costs based upon FASB Statement No. 71 (FAS 71). The deferred amount is recorded as a regulatory asset. Accordingly, we have increased test year working capital by $5,012,865. Since GTEFL is statutorily required to file MMFRs every 4 years, the amortization period for this regulatory asset should also be 4 years.

10. Amortization/Transitional Benefit Obligation

GTEFL originally advocated a 20-year amortization period for the transitional benefit obligation. However, if we approve amortization of the one-time benefit from the directory revenue accounting change, as discussed above, GTEFL proposes that the amortization of the transitional benefit obligation be reduced to the average remaining service life of 17.77 years.

We find the amortization period for the transition obligation and the amortization period for the directory revenue gain to be totally unrelated. Moreover, we have made no adjustment to amortize directory revenues. Since the Company originally proposed a 20 year amortization period for the transition obligation, and no other party took any position on this issue, we find that the appropriate amortization period is 20 years.

G. Depreciation Expense

Depreciation Expense is a mathematical calculation based on approved adjustments addressed in this Order. The Company has calculated the depreciation expense as shown in Witness Johnson's Revised Direct Testimony, incorporating the depreciation stipulation approved in Docket No. 920284-TL. This is a decrease of $17,436,844 (intrastate) from the original filing. We accept the

Company's calculations. Based on additional approved adjustments to the amount filed on September 6, 1992, intrastate depreciation expense for the test year is $179,886,000.

H. Taxes Other Than Income

This is a mathematical calculation based on other decisions set forth in this Order. The intrastate test year taxes other than income is $39,127,000. The Company, in its revised filing of September 6, 1992, has adjusted the amount filed and calculates intrastate test year taxes other than income to be $38,951,000. OPC has proposed additional adjustments to the amount filed on September 6, 1992 which yield an intrastate test year taxes other than income of $36,249,000. Based on a mathematical calculation of our decisions set forth in this Order, we find the appropriate amount to be $39,005,000.

1. Gross Receipts

Section 203.01(5), Florida Statutes, provides utilities with the authority to separately identify all gross receipts tax as a separate line item on customer bills. GTEFL asserts that it currently includes two different gross receipts tax rates on the customer bills: (1) .76% for the incremental difference between the embedded rate of 1.5% and the current authorized rate of 2.25% and (2) 2.30% for the gross receipts tax on the Customer Access Line Charge (CALC). By unbundling the rate, the Company proposes to show one rate of 2.30% for all applicable line items on the customer bills.

OPC argues that the Company incorrectly calculates the incremental portion of the gross receipts tax as well as the tax on the interstate subscriber line charge by using 2.30% and .76% rates versus the statutory rates of 2.25% and .75%. OPC contends that the rates used by the Company are different from the statutory rates because the Company is paying a tax on the tax. OPC asserts that if GTEFL properly recorded the incremental level of the gross receipts tax and the tax on the subscriber line charge as a liability and not as a revenue, the problem would not exist.

We do not accept OPC's accounting method because it does not recognize that the gross receipts tax is a cost of doing business. We agree with the Company that the it has not overcollected the gross receipts tax by including a tax on the tax. We find that the statutory rates must be grossed up to enable the Company to collect enough gross receipts to recover the tax on the tax. Therefore, no adjustment is necessary.

2. Property

The Company has included property tax expense of $48,169,000 in its projected test year expenses. OPC asserts that the Company is relying on a budgeted level of property tax expense for 1993. OPC contends that the year 1991 includes an abnormal level of expense. Based on OPC's calculations, the Company is projecting a two year increase of 14.43% over what OPC considers to be the normal level of property tax expense. OPC contends that since GTEFL is projecting an increase in rate base of 2.2%, an annual increase in property tax of 3% should be allowed. Thus, OPC proposes to reduce property tax expense by $2,692,329.

The Company asserts that OPC's proposed adjustment understates its rate year level of property tax expense.

We have reviewed the methods used to calculate property tax expense which were used by the Company and by OPC and find that the different methods account for the different percentages of increase in property tax expense. OPC has not taken factors other than changes in rate base into account when determining the appropriate level of property tax expense to include in the rate year.

OPC's assertion that the Company is projecting a 14.43% increase in property tax expense is not correct because it is not comparable to the method of projection used by the Company. We note that no party took issue with the Company's method of projecting property tax expense.

Based on the approved decrease in rate base, increase in net operating income, and decrease in the overall rate of return, we find that the Company will experience some change in the valuation of its property. However, it is difficult to determine if the property will increase or decrease in value. Therefore, we find that the most conservative approach is to allow the Company the increase in property taxes associated with increased levy rates.

Since levy rates have increased an average of 3.5% and the Company has projected that property tax expense will increase 3.4% per year, we find that no adjustment is necessary. While the Company anticipates that 1992 and 1993 levy rates will increase a minimum of 2.5%, we find that the average increase in levy rates of 3.5% is more indicative of the future. Therefore, we find that no adjustment shall be made to the Company's projected level of property tax expense.

I. Income Tax

This is a mathematical calculation based on other decisions set forth in this Order. The intrastate test year income tax expense is $31,474,000. The Company, in its revised filing of September 6, 1992, adjusted the amount filed and calculates intrastate test year income tax expense to be $43,111,000.

OPC proposes adjustments to the amount filed on September 6, 1992 which yield an intrastate test year income tax expense of $91,515,000.

Based on our decisions set forth in this Order we find that the appropriate amount to be $51,312,000.

1. Interest Expense

This is a mathematical calculation which is dependent on the final capital structure approved in this proceeding. However, GTE made several adjustments in its filing to account for the impacts of synchronizing the interest expense used to calculate income tax expense to the debt level reflected in the capital structure. OPC does not agree with some of the adjustments. To avoid confusion, we shall address each of the Company's adjustments separately.
Based on the following decisions, income tax expense shall be reduced by $8,258,000.

a. Parent Debt Adjustment

In its original filing, the Company reduced intrastate Federal income tax (FIT) expense by $6,275,974 to reflect the imputation of the parent company's debt on the common stock portion of GTEFL's capital structure. The adjustment reflects the theory that the subsidiary's common stock is supported by the debt component of the parent company's capital structure. Although GTEFL does not agree with the adjustment, it was included as required by Rule 25-14.004, Florida Administrative Code. We find GTEFL's calculation to be in accordance with the Rule. OPC does not specifically address this adjustment except to assert that other adjustments made by the Company negate the parent debt adjustment. Since this is a calculation based on other decisions, federal income tax expense shall be increased by an additional $229,161 to account for the effect of our approved capital structure on the parent debt adjustment.

b. Investment Tax Credit (ITC) Interest Synchronization

In its original filing, the Company made an adjustment to decrease intrastate Federal Income Tax (FIT) expense by $135,309, to reflect the imputation of interest expense on the unamortized ITC balance. In its revised direct testimony, GTEFL reduced income tax expense by an additional $57,836 to include the impact on State income tax (SIT) expense and other adjustments to its original filing.

OPC asserts that an additional adjustment in the amount of $29,761 is appropriate to reduce tax expense based on the weighted cost of debt in the capital structure it would have us approve. However, OPC cautions that its proposed changes to rate base were not considered in its calculation and the adjustment will need to be recalculated once the capital structure is determined. We do not accept either the Company's or OPC's interest synchronization adjustment because the adjustment is a fall-out number which is dependent on the approved capital structure. Therefore, based on the approved capital structure, income tax expense shall be reduced by an additional $335,150.

c. GTECC Interest Synchronization

The Company made a revised adjustment to increase income tax expense in the amount of $619,125 to reflect the imputation of debt expense to its subsidiary, GTECC. The Company contends that this adjustment is identical in theory to the parent debt adjustment. GTEFL argues that the subsidiary's common stock is supported in part by the debt of the GTEFL's capital structure and therefore, an imputation of interest needs to be made to the subsidiary to reduce GTEFL's interest expense. OPC argues that this adjustment improperly reduces the parent debt adjustment.

We find that once GTEFL's capital structure is reconciled to rate base, this adjustment will constitute "double dipping." During cross examination of Company witness Johnson, he agreed that one of the results of the reconciliation of the capital structure to the jurisdictional rate base is the elimination of any interest not associated with GTEFL operations. Therefore, it appears that the "subsidiary debt adjustment" is not appropriate once the rate base and capital structure are reconciled. Thus, we find that the Company's GTECC adjustment to decrease tax expense is inappropriate. The income tax expense shall be reduced by $619,125 to remove the GTECC adjustment.

d. Full Interest Synchronization/Reconciliation

The Company makes an adjustment in its original filing to increase intrastate income tax expense by $7,345,069 to reflect the impact of the synchronization of the interest expense used for income tax purposes with the debt level reflected in the capital structure. In its revised direct testimony, the Company decreased intrastate income tax expense by $769,857 to reflect the revised level of its full interest synchronization adjustment.

OPC does not agree with the Company's "full interest synchronization" adjustment. OPC contends that the Company's interest synchronization method negates the parent debt adjustment. We agree.

GTEFL makes an adjustment in its full interest synchronization calculation to add back the parent company debt adjustment, thus effectively reversing the parent company debt interest. During cross examination, GTEFL witness Johnson would not agree that the adjustment negates the parent debt adjustment. However, he did say that the adjustment offsets the parent debt adjustment.

The Company explains that full interest synchronization is used to synchronize the interest expense used for income tax purposes with the debt level reflected in the capital structure. However, a review of the Company's workpapers indicates the that its interest expense used in the income tax calculation differs from the interest expense used in the full interest synchronization adjustment. GTEFL synchronizes interest inherent in the capital structure with interest expense reflected in the income tax calculation that has been increased by parent debt and ITC interest. As a result, we find that the parent debt adjustment and the ITC interest synchronization adjustment are negated.

Moreover, we find that the full interest synchronization adjustment should be calculated to accomplish the intent of the adjustment which, as reflected in the Company's workpapers, is to synchronize the interest expense used for income tax purposes with the debt level reflected in the capital structure. To accomplish this, interest in the Company's proposed capital structure must be synchronized to the projected interest expense used in the Company's income tax calculation.

Using the Company's workpapers, and comparing the unadjusted rate year capital structure interest to the interest expense used in the income tax calculation results in an interest synchronization adjustment to increase income tax expense by $1,553,221. The Company's original and revised filing shows that it made an adjustment to increase income tax expense by $6,567,650. Therefore, intrastate income tax expense must be reduced by $6,575,212 to properly reflect the interest synchronization adjustment based on the Company's original and revised filing. In addition, an adjustment in the amount of $227,154, must be made to reflect the impact of our approved capital structure on the interest synchronization adjustment.

2. ITC Amortization and Flowback of Excess Deferred Taxes

We have approved new depreciation rates for GTEFL which will impact the amortization of investment tax credits (ITCs) and the flowback of excess deferred income taxes.

In its revised filing, the Company increased the level of intrastate ITC amortization by $907,900 to reflect the increase in depreciation expense. The Company's adjustment was not challenged by any of the parties. We have reviewed the Company's adjustment and find it to be reasonable and correct. The effect on the flowback of excess deferred income taxes is set forth in a separately issued Proposed Agency Action Order.

J. Net Operating Income

This is a mathematical calculation based on other decisions in this case. The Company asserts that the appropriate amount of test year intrastate net operating income is $143,377,234. Based on the level of revenues and expenses approved in this proceeding, we find the appropriate amount of test year intrastate net operating income to be $176,671,000 as follows:

| | |
|---|---|
| Revised Intrastate Net Operating Income filed on September 6, 1992 | $143,377,000 |
| Commission Adjustments: | |
| Repression and Stimulation | $ 4,463,000 |
| Employee Concessions: | |
| Operating Revenue | $ 1,801,000 |
| Operating Expense | (1,411,000) |
| Total Adjustment | 390,000 |
| Tariff Price-out Reconciliation: | |
| Operating Revenue | $ 3,029,000 |
| Operating Expense | 181,000 |
| Total Adjustment | 3,210,000 |
| New Products and Services | 1,252,000 |
| Universal Service Fund | 2,370,000 |
| PIU Audits: | |

| | |
|---|---|
| Operating Revenue | $ 2,521,000 |
| Operating Expense | ( 213,000) |
| Depreciation Expense | (198,000) |
| Total Adjustment | 2,110,000 |
| USTA Dues | ( 13,000) |
| Uncollectible Expense | 999,000 |
| Fringe Benefit Expense | 3,556,000 |
| Community Affairs Advertising | 191,000 |
| Relocation Expense | 320,000 |
| Data Processing Costs | 3,568,000 |
| Miscellaneous Expenses | 33,000 |
| Central Office Conversion Savings | 146,000 |
| Service Fee Credit | 1,489,000 |
| Chamber of Commerce Dues | 79,000 |
| Chauffeur Services | 15,000 |
| GTEDS Return | 4,409,000 |
| GTES Purchases: | |
| Operating Expense | $ 74,000 |
| Depreciation Expense | 78,000 |
| Total Adjustment | 152,000 |
| Network Commissions | 2,132,000 |
| Post Retirement Benefits Expense | 648,000 |
| Deferred Post Retirement Benefits Expense | 10,000,000 |
| GTECC Interest Synchronization | 619,000 |
| Full Interest Synchronization | 6,575,000 |
| Rate Base Synchronization | 335,000 |
| Effect of Parent Debt | ( 227,000) |
| Flowback of Excess Deferred Taxes | 128,000 |
| Tax Effect of Other Adjustments | (15,615,000) |
| Total Adjustment | $33,294,000 |
| Intrastate Test Year Net Operating Income | $176,671,000 |

X. REPORTING REQUIREMENTS

A. Rate Case Expense

As set forth in Section III, Stipulations, we approve a stipulation that GTEFL will file, within 30 days after the date of the final order in this Docket, an updated schedule to reflect the actual rate case expense.

B. Subsequent Earnings Reports

The Company asserts that it made adjustments in this proceeding of its own volition to remove items from the ratemaking equation, not necessarily associated with its belief that they were improper, but due to political concerns or contingencies. GTEFL concludes that these adjustments should not be reflected in the Company's subsequent Earnings Surveillance Reports (ESRs).

OPC asserts that the Company should be required include all adjustments including both costs directly incurred and allocated from any affiliate in this proceeding, in the subsequent ESRs. FCAN agrees with OPC.

The Company identified three groups of adjustments: (1) adjustments that had been ruled on in prior GTEFL cases; (2) adjustments based on voucher or invoice study; and (3) adjustments removed for political reasons. The Company argues it is not required to include the last two types of adjustments in subsequent ESRs.

For the second category of adjustments, GTEFL obtained a sample of invoices and determined the percentage of errors detected in the sample. This percentage was then extrapolated to obtain a reasonable adjustment amount for the population. Under Rule 25-4.0245 (2)(a), Florida Administrative Code, GTEFL is required to file monthly ESRs. The Company argues that this type of study should not be done every month for the monthly ESR. We agree that conducting this type of study every month could be burdensome for the Company. However, we do not accept that this adjustment should be completely ignored. We have historically allowed the companies to reflect a reasonable estimated amount for the adjustment in the ESR. Under the circumstances, we find that GTEFL shall be required to make this type of an adjustment in future ESRs based on a reasonable estimate.

An example of the third type of adjustment is aircraft expense. GTEFL asserts that it has seen this adjustment excluded in some rate cases and included in others. The Company has chosen not to try the issue in this case, and thus, does not believe that it is appropriate to remove this expense from the ESR.

We find that excluding the third type of adjustments from subsequent ESRs would violate Rule 25-4.0245(1)(b), Florida Administrative Code, which states, "the adjustments shall be consistent with those made in the company's most recently completed rate proceeding." GTEFL's argument regarding inconsistencies in past decisions involving aircraft expense is irrelevant. The issue here is whether the Company should be required to reflect all adjustments in the subsequent ESRs which were made in its most recently completed rate proceeding. GTEFL shall be required to include all adjustments in its subsequent ESRs.

C. Revenue Requirement

Based on the level of rate base, rate of return, revenues and expenses proposed by the Company in this proceeding, the Company has calculated the appropriate amount of the revenue increase for the test year to be $65,994,207.

Although OPC has not quantified its position on the amounts of the components in this calculation, OPC argues that cumulatively the adjustments it proposes indicates that GTEFL's rates should be reduced by $126 million. AD HOC agrees with OPC's presentation and adopts its position. FCAN argues that no increase is necessary based on the positions of OPC.

The appropriate amount of revenue decrease for the test year is a mathematical calculation of our decisions on other issues. Based on the level of rate base, rate of return, revenues and expenses approved in this proceeding, the appropriate amount of the revenue reduction for the test year is $14,475,000.

## XI. LEGAL ISSUES

We note that while the following issues are characterized as "legal," the parties have uniformly failed to cite legal authority for their various positions.

A. Do the pronouncements of the Financial Accounting Standards Board legally compel the Commission to any specific accounting methodology for rate making procedures under Florida Statutes?

The Company, and OPC assert that the Commission is not legally compelled to use the pronouncements of the Financial Accounting Standards Board (FASB) for ratemaking purposes under the Florida Statutes. OPC asserts, that the purpose of FASB is to determine accounting methodologies to be used for external financial statements. We agree. However, to the extent the FASB pronouncements provide reasonable methodologies for recognizing expenses in a regulatory framework, we find that the pronouncements may be used for ratemaking purposes.

B. <u>May the Commission substitute SFAS 106 as the standard by which it judges whether Company expenses are incurred, and if incurred, whether reasonably incurred?</u>

The Company and OPC argue that we cannot substitute SFAS 106 as the standard by which it judges whether Company OPEB expenses are incurred and are reasonable. GTEFL asserts that we should examine SFAS 106 requirements to independently determine if the standards are appropriate. GTEFL further asserts that the examination should be based on the evidence in the record and in accordance with GAAP. OPC contends we must examine all expenses to determine if they are reasonably incurred by the Company and that we cannot delegate our authority to FASB.

We find that the Commission may not delegate its authority to FASB. However, we may determine that a methodology, such as SFAS 106, presented by FASB is appropriate for ratemaking purposes. Moreover, we may adopt the basic guidelines found in SFAS 106, but still make adjustments to the OPEB expense calculated under SFAS 106 by adjusting items such as the underlying assumption, timing or benefits. The burden of proof remains with the utility no matter what methodology is used to determine an expense. Therefore, while a methodology under a SFAS may be generally acceptable, it is incumbent upon the utility to prove that the expense is reasonable, prudent, and utility-related.

C. <u>Should the Commission approve expenses which are based upon obligations of the Company which are not legally enforceable?</u>

OPC contends that it is our statutory obligation to determine whether identified expenses will actually be incurred. OPC asserts that contingent liabilities, such as those included in the calculation of OPEB expense under SFAS 106, are subject to change after rates are set.

GTEFL argues that, under OPC's view, few expenses would be appropriate for ratemaking because they are not legally required to be incurred. GTEFL argues that SFAS 106 expense is no different than other legitimate costs of doing business and that SFAS 106 contains provisions to adjust for changes in the OPEBs expense should such action be necessary.

We find that our statutory responsibility is to set fair, just, and reasonable rates. To set those rates, we must determine what expenses are prudent, utility-related, and reasonable. When using a projected test period, most of the expenses and revenues are estimated. The burden of proof then lies with the utility to show that the estimates meet the standards of an allowable expense. Since the rates are based upon estimates, the amount of the expenses actually incurred will vary from the amounts estimated by the utility. The estimates may be high or low. Historically, we have employed a range concept partially in recognition of the dynamics of expenses. We do not verify that every identified expense has incurred; rather we monitor the overall earnings of the utility to see that earnings are within a reasonable range.

We agree that the OPEB expense is subject to change just as all expenses are subject to change during the period rates are in effect whether the expense is determined from a contractual obligation or not.

## XII. RATE DESIGN AND TARIFF CHANGES

A summary of the revenue effects of the approved rates is set forth in Attachment I of this Order.

### A. IntraLATA Toll Rates

GTEFL proposes to significantly reduce its intraLATA MTS toll rates, as well as its WATS and 800 rates. The proposed reductions would yield a 25% decrease in overall rates. No other party took a position on this issue.

The Company cited four main reasons for its proposal: (1) MTS reductions may relieve some EAS pressures; (2) MTS and WATS reductions may help alleviate the threat of bypass; (3) the Company wishes to price toll to meet competition occurring from the lifting of the toll transmission monopoly; and (4) lower MTS and WATS rates would reduce the disparity between intrastate and interstate toll rates while maintaining toll rates in the aggregate above access charges.

We do not adopt the Company's proposal. However, we do agree with the Company that its intraLATA MTS rates are relatively high and their reduction is a high priority in this case. Our disagreement stems from the pressure the Company's proposal would put on local rates. Granting the Company's proposal would mean that in excess of $30 million would have to be recovered with other services. Even though the Company is facing a net revenue decrease as a result of other decisions set forth in this Order, we find that intraLATA toll reductions do not warrant allocation of all of the Company's excess revenue, plus the millions in local rate increases it would take to make up the difference. We find that

EAS/ECS pressures are of primary importance, and intraLATA toll rates a second priority.

Accordingly, we approve toll rate reductions totalling approximately $15.4 million as set forth in Attachment I of this Order. IntraLATA toll includes (1) MTS; (2) Suncoast Preferred 1, 2 and 3, Toll-Pac and Valu-Pak (these are derivatives of MTS service and are offered as a direct discount from MTS rates); and (3) OutWATS and 800 Services, and Residence and Business Line 800 services. In addition, consistent with our subsequent finding regarding ECS, Toll-Pac service shall be eliminated.

B. Time of Day Discounts

We do not accept the Company's filing regarding time-of-day discounts. Although we approve the reduction in the evening discount from 35% to 25%, the night/weekend discount shall be reduced from 60% to 50% as opposed to the Company's proposal of 40%. This will bring GTEFL's discounts more in line with the other major LECs.

C. Intraexchange Private Line

Intraexchange private line rates and rate structure shall remain consistent with our decisions in the GTEFL local private line restructure (Docket No. 910967-TL). We approved the restructure and repricing of intraexchange private line to become effective December 1, 1992. (Order No. PSC-92-0738-FOF-TL). Phase I rates and rate structure are now reflected in the Company's 1993 BAU rate year revenues. The increased revenues from Phase I private line have already been offset with BHMOC reductions. Consequently, approval of GTEFL's proposal does not result in any revenue impact.

D. Interexchange Private Line

GTEFL currently concurs with Southern Bell's interexchange private line tariff. The Company contends that interexchange private line should mirror the rate structure for the proposed Phase III intraexchange (local) private line services, including the effects of private line depooling.

Ad Hoc's position is that the proposed rates compound a bad situation by presuming that the cost studies which supported the original phase III prices were accurate, and are a good basis upon which to base pricing decisions.

We have some concerns about the mirroring of Phase III intraexchange (local) private line rates for interexchange private line. However, on balance we find the Company's proposal to be reasonable in this case because it will decrease interexchange private line rates, making the service more competitive.

E. InterLATA Access

1. Switched Access Volume Election

GTEFL proposes Switched Access Volume Election service (SAVE) as an incentive to its large switched access "customers." Under the proposal, discounts from originating and terminating traffic would be calculated based on large customers' individual usage. The term "customer" in this case is actually an IXC's customer, not GTEFL's. The program is an attempt to give large end users and IXCs the incentive to stay on the switched network. None of the IXC intervenors, all of whom would directly benefit from SAVE, endorsed the Company's proposal. ATT-C and MCI opposed it.

Based on the evidence presented, the potential benefit of the SAVE plan is highly questionable at best. We find that the revenues required to implement SAVE could be better spent elsewhere. Therefore, we deny the Company's SAVE proposal.

2. Other Changes

GTEFL has proposed several other changes to its tariffed intrastate access offerings. We address them separately as set forth below.

a. Tariff Structure

The Company's proposal is to have its intrastate access tariff mirror the structure of its interstate access tariff.

We have only one concern regarding the Company's proposal. Namely, the access charge time-of-day discounts, eliminated in the Company's proposal, should be retained, but revised to the levels currently in effect for United Telephone Company of Florida. This will mirror the discounts approved supra for MTS, and ensure that MTS rates and access rates are comparable.

ATT-C asserts that if the BHMOC charge is not going to be eliminated, time-of-day discounts should remain as well. It is ATT-C's position that eliminating the discounts without reducing access charges to offset the increase could put upward pressure on MTS rates.

We find that any access charge increases which occur as a result of the decision to reduce GTEFL's discounts shall be offset. All additional revenues generated by our approved changes shall be applied to the BHMOC charge.

b. BHMOC

The Busy Hour Minute of Capacity (BHMOC) is a fixed monthly rate per busy hour minute of switched access capacity ordered by IXCs. The BHMOC charge is calculated and assessed for each IXC connection to a LEC's switch. The BHMOC rate is unique to Florida and there is no BHMOC charge for interstate access. In past proceedings, GTEFL's BHMOC has been reduced from $6.60 to $2.33. GTEFL proposes to eliminate the BHMOC charge entirely.
GTEFL argues that eliminating the BHMOC will mitigate the threat of uneconomic bypass and help reduce the intrastate vs. interstate access rate disparity. Under the Company's proposal, all IXCs would receive lower access rates.

We agree that reducing or eliminating the BHMOC might help the competitive market in GTEFL's territory and benefit IXCs. However, GTEFL's BHMOC charge is relatively low. Moreover, the Company's intraLATA toll rates are excessively high and should be reduced before access rate reductions are approved for GTEFL's intraLATA toll service competitors. Thus, BHMOC shall not be reduced in this proceeding, except as an offset to other increases as set forth supra.

c. Special Access

Ad Hoc's position is that the proposed rates compound a bad situation by presuming that the cost studies which supported the original phase III prices were accurate, and therefore were a good basis for pricing decisions. However, we find the Company's proposal to be reasonable in this case because it decreases rates.

d. Billing and Collection

Billing & collection services are becoming more competitive. The Company's proposal structures the rates competitively for large users who may have alternatives for billing & collection. Rates for bill rendering and message bill processing would decrease for high volume users and increase for low volume users. Message billed processing rates would increase by about $0.01 per message for low volume users. High volume users of MTS/WATS/800 service bill rendering would experience about a $0.02 per bill decrease in rates. We approve the Company's proposal.

F. Extended Calling Service/Extended Area Service

By Order 25708, we approved GTEFL's Extended Calling Service (ECS) Plan for the Clearwater, Tarpon Springs, Tampa, and St. Petersburg exchanges. ECS between these exchanges went into effect on March 7, 1992. Plant City was added as an ECS exchange, with calling to Tampa. The Optional Extended Community Calling Service (OECCS) from the Plant City exchange to the Tampa central exchange was cancelled, with the exception of the premium flat rate option. The Plant City/Tampa ECS route went into effect on May 2, 1992.

Under the ECS plan all intraLATA toll routes between the affected exchanges are converted to seven digit local dialing. ECS calls are billed on a nondistance-sensitive, per-minute basis, at rates approximately 70% less than current intraLATA toll rates. For business customers, this translates to $.10 for the first minute and $.06 for each additional minute, with no off-peak discount. Residential customers are charged $.25 per call, regardless of call duration. In addition to the ECS rates, detailed billing of ECS calls is offered as an optional service. Bill detail, if requested, provides the customer with a list of each ECS call made during the billing period. The charge for this service is $1.75 per month per customer bill plus $.12 per each page of ECS billing.

Unlike PATS vendors who must cap the charge to end users at $.25 per message for each ECS call, there currently is no restriction placed upon STS vendors on what they can bill the end users for ECS calls. GTEFL argues that it is appropriate to charge Shared Tenant Service (STS) providers for ECS calls at the rates approved for all other business customers.

GTEFL proposes to expand ECS to all intraLATA, intra-county toll routes that exhibit high volumes of traffic, as demonstrated by a CIF greater than 3.0, and short distances, defined as 35 miles or less. GTEFL contends that its current ECS is the best plan for meeting customers' needs for expanded local calling. According to GTEFL, ECS ensures that the costs associated with providing the service are recovered from those customers using the service. GTEFL further argues that the county boundaries in GTEFL's service territory are reasonable determinations of a customer's local calling area.

If a central office provides service to customers physically located in more than one county, GTEFL proposes that ECS rates apply to all intraLATA calls to exchanges in both counties. GTEFL argues that this would be least disruptive to both the Company and its ratepayers because the Company is unable to restrict the expansion of ECS to physical county boundaries. GTEFL's billing system and central offices are designed to bill and route calls based upon the originating and terminating NPA NXX of the call. To route and bill the calls of customers based on the physical county boundaries would require the NXXs of central offices to be assigned based upon county location of the customer. A plan of this type could require some customers to change their telephone number.

ATT-C argues that GTEFL's proposed countywide extended local calling service (ECS) does not address the underlying causes of extended area service (EAS) pressure. ATT-C contends that GTEFL's proposal will only frustrate a more positive and comprehensive approach to satisfying the demand for EAS in Florida.

Hillsborough County and Plant City oppose GTEFL's proposed expansion of ECS. They argue that, due to the strong community of interest between Plant City and the remainder of Hillsborough County, we should, rather, order GTEFL to provide EAS for all Plant City exchanges. Plant City opposes the 25/25 Plan.

AD HOC and FCAN both argue that any expansion of ECS would give GTEFL a virtual monopoly over these local long distance calls. FCAN also agrees with the Plant City and Hillsborough County positions.

FIXCA and MCI maintain that, if this Commission wants lower intraLATA toll rates, it should adopt a reduced intraLATA access rate system which allows all toll carriers to provide lower prices. They also argue that GTEFL has not met its burden of demonstrating that its proposed expansion of ECS pricing on these toll routes is warranted pursuant to Order No. 25708, issued in Docket No. 910179-TL (the original ECS Docket).

Sprint argues that local calling expansion should fully cover all costs of such expansion and objects to any expansion being subsidized by access charges. Sprint also contends that any expansion of local calling should be available for resale by long distance carriers.

1. Expanded ECS Proposal

Over the last few years, we have observed continued interest in expanded local calling areas from both residential and business customers. Residential customers have requested the ability to call friends, family, businesses, and services in nearby communities that, in the past, were not thought of as their community of interest. Business customers have been desirous of expanding their markets by becoming part of a larger "local" community. Although we agree with the principle of toll relief, ECS may not be the appropriate vehicle for such relief. Moreover, not all of the calling volumes for the proposed ECS routes under consideration in this Docket warrant toll relief.

By Order Number 25708, issued in GTEFL's initial ECS Docket, we stated that, in addition to traffic data, "community of interest" considerations should include access to various facilities and services such as emergency services, educational facilities, medical services, shopping facilities, state and county governmental offices, principal employers, employment, and recreational facilities. GTEFL was able to demonstrate in that case that there was a high degree of community of interest which warranted the ECS plan.

However, in the instant case, the only information which GTEFL provided in support of expansion of the ECS plan was traffic data, EAS petitions by Frostproof and Manatee and Pasco Counties, and customer letters. GTEFL did not present any evidence regarding commercial or commuting patterns, population growth, hospitals, government centers, and census information on the routes for which it proposed expanding ECS. Although GTEFL chose the proposed ECS routes because it believes there is a "customer need for expanded local calling on these routes," it did not prove that such a need exists for the routes it has proposed.

2. Countywide Calling

As support for its view that county boundaries are appropriate standards for determining local calling areas, GTEFL referred to our decision in Docket No. 910529-TL, wherein we expanded local calling on intracounty routes, six of which involved GTEFL exchanges. However, that Docket was opened in response to a request by the Board of County Commissioners of Pasco County to expand local calling. While we have generally responded to countywide needs when requested by a community or government entity, we find a wholesale conversion to countywide calling absent such a request to be inappropriate.

3. Flat Rate EAS

Traditional EAS was created to provide specific areas, which had an established community of interest with another area, some form of toll relief. EAS is a rate structure plan that provides local calling at a monthly flat rate between exchanges which have demonstrated communities of interest. This arrangement provides for nonoptional, flat rate, two-way, unlimited calling between two or more exchanges. Typically, a small exchange requests EAS to a larger exchange, which is the case for two of the three EAS routes discussed herein.

We note that several of GTEFL's proposed ECS routes are currently under consideration for EAS. Although GTEFL did not propose flat rate EAS for any of its intraLATA routes, it did identify the Palmetto/Sarasota and the North Port/Sarasota routes as qualifying for two-way, nonoptional, flat rate EAS. However, it contends that EAS is not the best alternative for these routes when all factors are considered. GTEFL argues that, under flat rate EAS, those people who make no calls to the extended calling area subsidize those who do. GTEFL concludes that since the ECS rate structure is intended to recover the cost of the call from the person making the call, it is a much more equitable means of charging for extended area service.

We do not necessarily agree that flat rate EAS is inappropriate simply because the customer making the call does not pay all of the costs associated with it. If an area qualifies for flat rate EAS pursuant to our rules, the petitioning exchange should have the opportunity to be surveyed and vote in accordance with its preference.

a. Plant City

GTEFL argues that the revenues it receives for the calls on the Plant City/Tampa ECS plan cover costs, and that these costs are recovered from customers who use the plan. GTEFL contends that, under a flat rate EAS plan, these costs must still be recovered, but they would be recovered from all Plant City customers, regardless of whether they make calls to the other Hillsborough County exchanges.

According to GTEFL, the ECS plan, which was implemented in May of 1992, has greatly increased the calling between Plant City and Tampa. The Company proposes to expand Plant City's ECS calling area to include the rest of Hillsborough County and the Mulberry exchange.

GTEFL also notes other options available to Plant City subscribers: Optional Extended Community Calling, which allows residential customers in Plant City unlimited calling to Tampa Central for $8.63 a month; Remote Call Forwarding, which allows Plant City businesses to offer toll free calling to their customers within Tampa for $16 per month, plus 4 cents per message and two cents per minute (discounted for off-peak periods), which is also available to Tampa businesses to offer toll free calling to their Plant City customers; and Business Line 800, which offers toll free calling throughout the Company's territory for $3 per month plus usage. The Company contends that these options, combined with ECS, allow Plant City and other Hillsborough customers to design a calling plan tailored to their needs and calling habits.

Plant City contends that ECS does not meet its calling needs to Tampa. Plant City argues that many of its residents cannot call their places of business, schools, hospitals, or doctors without a toll charge, and that many businesses are isolated from the rest of Hillsborough County by this charge, which heavily impacts the local economy. Plant City further believes that, when its residents discover that a charge is associated with ECS calls, they limit such calls.

Plant City also notes that Hillsborough County and the City of Tampa have requested that we establish EAS. Plant City argues that because of the implementation of ECS between Plant City and Tampa, it would be much more difficult to pass a ballot for the 25/25 option. Moreover, since Tampa customers would also benefit from EAS, it would be unfair if only the Plant City residents were required to pay an additive.

Based upon the evidence discussed herein, it does not appear that ECS and the other optional plans are fully meeting Plant City's needs. We note that Plant City has been petitioning this Commission for toll relief since 1985. By Order No. 14992, issued September 23, 1985, we directed GTEFL to implement an optional LEP Plan between Plant City and Tampa within one year. The LEP Plan would allow each subscriber in an exchange to select an expanded local flat rate calling scope.

GTEFL filed a petition proposing a "Threshold Plan" instead of the LEP Plan. The Threshold Plan is a nonoptional calling plan which allows each subscriber a specific number of calls for a flat rate fee, with a per message charge for each call in excess of the threshold call allowance. That case went to hearing and, by Order No. 18049, issued August 26, 1987, we granted GTEFL's petition and approved the Threshold Plan. We also directed GTEFL to survey the Plant City customers regarding the Threshold Plan. Plant City contends that the ballot was delivered to the customers too hastily, which made it impossible for these customers to be made aware of the situation though a "media blitz". The ballot failed. Other optional plans were introduced in 1989. However, despite the optional toll plans and ECS, Plant City still exhibits a desire for flat rate EAS.

Based on the record, it appears that there is adequate traffic to warrant a ballot for EAS. Upon consideration, we find that the

Plant City customers shall be balloted for nonoptional flat rate, two-way EAS with regrouping only.

b. North Port

North Port/Sarasota is one of the routes which GTEFL identified as qualifying for flat rate nonoptional EAS based on our rules. Although the North Port exchange has not asked the Commission for EAS to Sarasota, the CIF for this route is 3.52 calls per month. The calling volumes from North Port to Sarasota indicate that a community of interest exists between the two exchanges. Accordingly, we find that the North Port/Sarasota route shall be surveyed for nonoptional, flat rate, two-way EAS with regrouping and the 25/25 additive.

c. Palmetto

The last of the three routes which GTEFL identified as qualifying for flat rate nonoptional EAS is the Palmetto/Sarasota route. Currently, there are two open Dockets regarding Palmetto's desire for nonoptional EAS to Sarasota. In Docket No. 920645-TL, Manatee County has requested EAS from Palmetto to Sarasota; in Docket No. 920725-TL, the City of Palmetto has requested consolidating the Palmetto and Bradenton exchanges in order to have toll-free calling to Sarasota.

Since Manatee County and the City of Palmetto were not parties to this proceeding, and since we are considering this route in other Dockets, we find that it would be inappropriate to address the matter in this proceeding.

d. Frostproof

Since the Frostproof/Bartow, Frostproof/Haines City, Frostproof/Indian Lakes and Frostproof/Winter Haven routes exhibited very low calling volumes, we conclude that there is not a significant community of interest between these exchanges, with the exception of the Haines City/Bartow route. Accordingly, it would be inappropriate to take any action on these routes at this time.

4. Expanded ECS

After eliminating the routes which qualify for flat rate EAS (the Palmetto/Sarasota, North Port/Sarasota, and Plant City/Hillsborough County routes) we ranked the remaining proposed ECS routes. Of those routes, the New Port Richey/Clearwater, Zephyrhills/Tampa (all), Mulberry/Tampa, and Mulberry/Plant City routes shall have ECS implemented. The traffic data indicates that there is a strong community of interest. All of the above routes have a CIF greater than 4.0 with the exception of the Mulberry/Plant City route. We have included this route, however, because to do otherwise would essentially "leapfrog" Plant City. We have not included the Myakka/Venice route because we question the accuracy of the data provided for this route.

The Zephyrhills/Tampa (all) route customers currently have an optional toll plan called Toll-Pac. Toll-Pac allows customers from Zephyrhills to call Tampa at a $2.75 monthly recurring charge, and provides a 30 percent discount on calls made to Tampa. Since only about 2.4% of the customers have opted for Toll-Pac, it shall be eliminated once ECS is implemented.

We do not approve ECS for the remaining routes proposed by the Company.

5. <u>STS Providers</u>

GTEFL proposes to charge STS providers the approved ECS rates for ECS traffic, as opposed to the current local usage rates charged to STS providers. GTEFL contends that STS providers should be billed the same rates for ECS calls that any other business customer is charged. We agree. Thus, we approve the Company's proposal.

G. <u>Local Tariffed Services</u>

In GTEFL witness Klassen's direct testimony, he describes rate proposals for all tariffed local services which are not residually priced. These services include: directory assistance, operator services, service connection charges, directory listings, directories, semi-public telephone service equipment, and custom calling service (SmartCall). We address each service issue as follows:

1. <u>Directory Assistance</u>

GTEFL proposed lowering the call allowance from three to two calls per month for local DA (there is no call allowance for intraLATA toll DA) and increasing the rate from $.25 to $.40 for both local and intraLATA DA. Under the Company's proposal, there would continue to be no call allowance for intraLATA DA.

In Docket No. 820537-TL, Order No. 13934 (the Access Charge Docket), we established a three call allowance for local DA. We determined that the public interest required that DA rates should not necessarily be designed to fully recover cost, but that some charge should apply in order to provide some cost recovery and deter customer abuse.

The Company proposes an increase to the charge for DA in order to cover costs and to provide a mark-up to encourage customers to use published directories. We agree it is appropriate to increase DA to put the rate more in line with the costs of providing the service. However, local DA is part of local service, in much the same way as a telephone directory. Because of this, we do not necessarily agree that the price should cover the full cost per billable local call. Accordingly, while we find that an increase in the per call price is warranted as a move towards covering the costs of providing the service, we decline to reduce the local DA call allowance from three to two calls per month. We find that a $.35 rate is reasonable and, will send a proper price signal to heavy users of DA. Further, we believe that this rate increase eliminates any justification for changing the local call allowance.

Thus, we approve an increase for both local and intraLATA toll DA from $.25 to $.35, and to retain the local call allowance of three calls per month for local DA.

2. Operator Services

The Company proposes the following increases for local and intraLATA operator Services:

1. Increase Station-to-Station Sent Paid Coin, Collect and Third Number calls from $1.00 to $1.50.

2. Increase Person-to-Person Send Paid, Coin, Collect, and Third Number calls from $2.50 to $3.00.

3. Increase Busy Line Verification from $.95 to $1.00.

4. Increase Busy Line interrupt from $.45 to $.50

Both the current and the proposed rates for these services cover costs. GTEFL proposes to increase operator services in order to supplement local revenues. We recognize that these calls are discretionary and the cost should be recovered from the cost causer. However, we find that the current rates, except for Busy Line Verification and Busy Line Interrupt, are already comparable to what other LECs charge and provide substantial contribution. In addition, given the Company's negative revenue requirement, we find that an increase in order to provide contribution to local revenues is unwarranted.

We approve the proposed Busy Line Verification and Busy Line Interrupt rates in order to bring them more in line with what other companies are charging. We deny the Company's request as to the remainder set forth above.

3. Service Connection Charges

GTEFL proposes several changes to its service connection charges. Specifically, GTEFL proposes the following:

1) rename the Company's service ordering charges;

2) decrease the Primary Service Order Charge for residential customers from $28.25 to $20.00;

3) increase the Central Office Line Connection (COLC) charge for residential and business customers from $48.25 to $55.00 and from $53.90 to $68.90, respectively; and

4) increase the Premises Visit charge for residential and business customers from $6.00 to $35.00.

The current Primary Service Order charge is to be renamed Network Access Establishment charge; the current Secondary Service Order Charge is to be renamed the Network Access Charge. The Company stated that these changes are proposed in order to establish uniformity and consistency with tariff and customer service application in other GTE South area states. We find that such consistency is appropriate for administrative ease.

We approve GTEFL's proposed service connection charges on the basis that the Company has provided adequate support in its cost studies to warrant an increase.

4. Directory Listings

GTEFL proposed to increase the non-published telephone number charge from $2.00 to $2.50, and the non-listed telephone number charge from $1.10 to $2.00. Non-published directory listing service is a service which restricts the customer's name and number from both the telephone directory and from directory assistance. Non-listed directory service restricts the customer's name and number from publication in the telephone directory, but allows it to be obtained from directory assistance. Since the purpose of directories is to facilitate communication over the public network, this purpose is frustrated when a large percentage of listings are withheld.

GTEFL proposes to increase the rates for these services in order to provide additional contribution towards basic local exchange service rates. Witness Klassen stated in his direct testimony that GTEFL "faces increased costs due to the withholding of non-published numbers from public access."

However, given GTEFL's negative revenue requirement additional contribution towards basic service is unnecessary. GTEFL's current rates are already among the highest in the state. Thus, we do not approve the proposed increase.

5. Directories

Generally, telephone directories are furnished without charge to customers as an aid to the use of the telephone system. However, customers may purchase extra directories or foreign directories, and the Company charges for these at an end-of-run cost basis. GTEFL's filing reflects the rates authorized earlier this year in Docket No. 910179-TL. We find this to be appropriate.

6. Semi-Public Telephone Equipment

GTEFL proposes to align the recurring and non-recurring charges for equipment used to provide semi-public service, with the costs incurred in providing these services. The changes are based on the results of a recent cost study conducted by GTEFL. We approve the Company's proposal.

7. Smart Call

GTEFL offers a variety of SmartCall (custom calling) features both as individual offerings and packaged with several features. The Company proposes the following increases to residential SmartCall feature charges ordered separately:

1. Call Forwarding from $2.00 to $2.50;

2. Three Way Calling from $3.00 to $3.50;

3. Speed Call 8 from $2.00 to $2.50; and

4. Speed Call 30 from $3.00 to $3.50.

In addition to increasing these residential custom calling features, the Company also proposes to implement rate banding for business and residential customers for these same features. This proposed flexible pricing will provide a maximum and minimum range of rates. Currently, banded rates exist for such custom calling services as Automatic Busy Redial and Calling Number Identification. Southern Bell and United also have banded rate schedules.

Upon review, we find that it is appropriate to increase the rates for residential Call Forwarding, Call Waiting and Speed Call features. In addition, we approve banded authority for Call Forwarding, Call Waiting and Speed Call so that the Company can maximize contribution for these custom calling features within the preapproved bands as the Company deems appropriate.

H. Local Exchange Access/Rate Groups

GTEFL proposes that its current number of rate groups be reduced from seven to five. The Company's proposal is based on the lack of customers in rate groups 1 and 3. Of the 28 exchanges served by GTEFL, only two (Frostproof and Indian Lake) are in rate group 2. The number of access lines in these two exchanges account for 0.3% of GTEFL's total number of access lines.

The current ceiling for rate group 2 is 25,000 access lines. Regrouping rate groups 1, 2, and 3 into a new rate group 1 will result in an access line ceiling of 50,000 access lines. Under GTEFL's proposal, rate increases due to regrouping will take longer to occur than under the current rate group 2 structure. Collapsing the number of rate groups will have no impact on customers' existing rates.

GTEFL's request to reduce the number of rate groups from seven to five is approved.

I. Residential Message Rate Service

Currently GTEFL offers a residential local message rate service (LMS) option. Under this option subscribers pay 60 percent of the specific rate group flat rate. Subscribers are allowed 30 free calls and pay ten cents per call for each call over the 30 call allowance.

GTEFL proposes that residential message rate service be provided under two options. Under the first proposed option subscribers would pay 70 percent of the weighted average flat rate and ten cents for each call in excess of the existing thirty call allowance. The second proposed option requires that subscribers pay 60 percent of the weighted average flat rate. There is no call allowance under this option.

GTEFL indicates that the introduction of their new service options was intended to "mitigate the effects of the filing for customers interested in a low cost alternative to traditional flat rate service." This means that the primary purpose of the Company's proposals in this issue is to alleviate the rate shock customers would experience under GTEFL's proposed local flat rates.

However, the rate shock to GTEFL customers will not occur in this proceeding. The Company's projected revenue deficiency has become a revenue excess, so significant local rate increases will not materialize. For this reason, the Company's proposal is denied.

We considered setting the residential message rate equal to 60% of the weighted average residential flat rate. This would yield a uniform rate of $6.82 in all rate groups. However, it the impact of this approach on message rate customers in the lower rate groups would be too severe. Under the circumstances, we find that the following rates are appropriate: RG 1 -- $5.83; RG 2 -- $6.73; RG 3, 4, 5 -- $6.82.

J. Business Message Rate Service

GTEFL proposes that its business message rate service be restructured. GTEFL asserts that there is no basis for business customers to have a call allowance with message rate service or for any other type of usage based service. Unlike residential service, no public interest is advanced by offering the lowest price service possible to business customers. We thus concur with GTEFL's assertion.

We find it appropriate to change the rates for business message services (message rated B1, B1 rotary and PBX trunks) to 60% of the weighted average flat rates (versus the rate group rates). We also find it appropriate to eliminate the additional PBX trunk discount. This is different from the Company's proposal. However, it is consistent with our decision set forth above. PBX message rate trunks are currently priced equal to measured rate B-1 lines, and additional trunks are half of that rate. This makes these trunks extremely inexpensive and inappropriately priced. We find no basis for this discount.

The Company shall provide, within 10 days of our decision, a calculation of the revenue impact from this action and apply the amount to reduce its BHMOC rate element. The undetermined dollar impact from the elimination of the call allowance shall be applied as a reduction to the BHMOC rate element.

K. Flat Rate Access Line Services

GTEFL proposes several changes to its flat rate residential and business access line services which alter both rate levels and relative rate relationships between services, including:

(a) increasing the R1 rates by a uniform $3.42, yielding increases ranging from 29% to 37%;

(b) setting rates for residential rotary service equal to the proposed R1 rates plus a uniform $2.85 additive;

(c) increasing the B1 rates by a uniform $14.08, yielding increases ranging from 47% to 59%;

(d) setting rates for business rotary service equal to the proposed B1 rates plus a uniform $7.35 additive; setting rates for PBX trunk service equal to the proposed B1 rates plus a uniform $14.80 additive; increasing the rate for semi-public access lines from 70% to 125% of the B1 rate; and increasing the rate for STS access lines from 60% to 80% of the PBX trunk rate.

Ad Hoc argues that GTEFL's proposals to increase B-1 rates, its proposal to increase B-1 rotary and its proposal to increase PBX trunk rates should not be approved because these rate increase proposals are based upon antiquated, non cost-based pricing methodologies and should be rejected. Additionally, GTEFL's failure to propose pricing changes for CentraNet, which competes with CPE not provided by the Company shows that GTEFL has engaged in highly selective and discriminatory pricing. The City of Plant City also objects to increases for these services.

1. R-1, B-1 Local Service

GTEFL proposes an increase to its local rates of approximately 28%, generating additional revenues of $95 million. The Company maintains that this increase would spread its revenue requirement over the most equitable customer base.

Since the revenue requirement requested by GTEFL has been denied, we find that no rate increase is necessary for residence and business flat rate local rates.

2. Business Restructure

Because of the overall revenue requirement decrease in this case, we find it appropriate to require some decreases to business

B-1 Rotary and PBX trunks to bring them closer to the existing B-1 rate. This is consistent with the testimonies of witness Metcalf of Ad Hoc and witness Klassen of GTEFL. Witness Klassen expressed the need to bring business rates closer together as a result of developments in CPE technology and the need to price business services closer to their relative costs.

Witness Metcalf proposed the initial stage of a repricing of business services. His proposal would involve establishing the rates for these services on three underlying cost characteristics: interconnection to the network (loop), network usage, and various additional functionalities (e.g., signaling, conditioning).

We agree that business services are priced farther apart than their relative costs indicate. Although the true costs of business access lines are difficult to determine, the relative cost differences among B-1, rotary, and PBX service are not.

The Company provided a cost summary of the relative costs of the three services. We do not necessarily agree with the specific cost levels of the Company's study. However, we do note the relationship of the cost components to one another; business service price differentials are far greater than the differences in their costs.

The Company recommended the B-1 rate be moved upward towards the PBX rate. This was consistent with the Company's proposal to raise local rates $95 million. Since the Company will not need to raise local rates, the PBX and B-1 rotary service rates shall be decreased to more properly reflect their relative cost differences with B-1 service. We further find that residential rotary service shall be decreased to 125% of the R-1 rate from the present 150%.

3. <u>Other Rate Changes</u>

We shall require an increase to the semi-public access line rate. Semi-public telephones are pay telephones that do not have 24-hour access. They can be located inside businesses or other places that close after certain hours. The rate shall be increased from 75% of the B-1 rate to 100% of the B-1 rate. This is consistent with our decision made in a recent Centel rate case (Docket No. 891246-TL). The target rate for semi-public access lines is 125% of the B-1 rate, but we generally accomplish this in two phases.

The Company also proposes increasing the Centranet Network Access Register (NAR) rate from 47% to 57% of the PBX trunk rate. The Company argued that, under its proposed rate structure, an arbitrage opportunity would be created if the NAR rate is not increased. Witness Klassen explained that it would be cheaper for a customer to get a single Centranet line and a NAR than it would to get a B-1 rotary line. This is inverse to the relationship desired between Centranet and B-1 rotary.

We find that the change is not necessary under our approved business rate structure. GTEFL proposes to move the B-1 rate up to the PBX rate, leaving the PBX rate virtually untouched. This would make B-1 rotary service (a function of B-1 service) overtake the NAR rate because the NAR rate would stay the same function of a stationary PBX rate. Instead, PBX and B-1 rotary shall come down to the B-1 rate in equal proportions. Thus, any rates tied to either the B-1 or PBX will maintain their relative relationships.

The Company proposes to maintain Information System Access Lines (ISAL) at the same level as business PBX trunk rates. However, in the Company's current tariff ISAL rates are two times the business flat rate (which equals the current PBX rate). We believe this to be an oversight on the part of the Company, and agree that the ISAL should equal the PBX trunk rate. GTEFL shall file a tariff page reflecting the correct rate and language.

Finally, the Company proposes raising the STS rate from 60% to 80% of the PBX trunk rate. This change is intended to keep STS access lines at, or above, PATS access lines, again under the Company's proposed rate structure. If the Company's rate proposal were approved, the PATS rate, as a function of the B-1 rate, would overtake the stationary STS rate. In that instance, the STS rate would need to be increased. However, STS lines will still be slightly above the PATS access line rate under our approved rates. Thus, the Company's proposal is denied.

L. <u>Vacation Service</u>

GTEFL proposes that the monthly charge for residential vacation service be increased from the current $5.50 to $8.35. GTEFL also proposes a monthly charge of $25.95 for business vacation service. Both charges are the same across all rate groups. The proposed monthly charge for residential vacation service reflects 56% of GTEFL's proposed weighted average flat rate for residential service while the proposed monthly charge for business vacation service reflects 60% of the Company's proposed weighted average flat rate for business service.

In the case of vacation service, there is no usage and the monthly rate should reflect this. Because of the similar usage factors for message rate service and vacation service, a monthly charge based on 50 percent of the weighted average flat rate is appropriate.

The Company also proposes the application of a Temporary Suspension of Service Ordering Charge. The purpose of this charge is to recover the cost of connecting and disconnecting vacation service. This charge is similar to that charged by other local exchange companies. It is also equal to the charge for disconnecting and restoring regular service. The procedures involved in connecting and disconnecting both regular service and vacation service are similar. Accordingly, we find the Temporary Suspension of Service Ordering Charge is appropriate.

Since vacation service is not based on usage, a monthly service charge based on fifty percent of the weighted average flat rate for residential and business service is appropriate. GTEFL's proposal to recover the costs incurred via the connection and disconnection of vacation service by applying a onetime service ordering charge is also appropriate.

M. Miscellaneous Changes

1. Monthly Itemized Bills

Rule 25-4.110, Florida Administrative Code requires that the telecommunications companies issue bills monthly and that each bill show the delinquent date, provide a clear listing of all charges due and payable and contain the following statement: "written itemization of local billing available upon request." In addition, the Rule requires that itemized bills be provided with the first bill rendered after service is initiated or changed, and at least once a year thereafter. The annual itemized bill will contain an explanation of the itemization, and advise the customer to verify the items and charges

GTEFL asserts that the Company is in compliance with the existing Rule. The Company itemizes all customer bills on an annual basis, and also whenever there is any service activity or rate changes affecting a customer's local service. We find that this procedure is adequate and affords customers ample information regarding their bills. We also agree with GTEFL that there is no evidence to suggest that a change is warranted.

2. Miscellaneous Tariff Changes

GTEFL has proposed no changes to the following items either because the rates for these services were recently adjusted, or are market based and cover costs. We address each of these services individually in order to determine whether any rate change is appropriate.

a. <u>A2, General Regulations</u>

Section A2 includes Order Cancellation Charges, Returned Check Charges, and Late Payment Charges. The Order Cancellation Charge is assessed when installation, rearrangement, or modification of facilities or equipment has been started and then cancelled by the customer. No specific rate is indicated in the Company's tariff for the Order Cancellation Charge. The charge assessed is equal to either 1) a charge equal to the estimated costs incurred in the installation, less the estimated net salvage, or 2) the charge for the minimum period of the service ordered by the subscriber, plus the full amount of any termination charges applicable. We find that the charges are still appropriate.

The Company's current Bad Check Charge remains at $15.00. We note that Section 832.07 Florida Statutes allows a $20 charge or 5% of the value of the check, whichever is greater. The legislation does not require the Company to charge this amount, but instead allows them to charge up to this amount. We approve the Bad Check Charge as filed.

The Company currently imposes a Late Payment Charge of 1.5% to each customer's bill when the previous month's bill has not been paid in full prior to the next billing date. The Company contends that this amount is still appropriate. We agree. In addition, GTEFL is in compliance with the provisions of the Florida Prompt Payment Act, Section 218.70-218.79, Florida Statutes, under which counties and municipalities are assessed a 1% late charge 45 days after presentation of the bill. Therefore, no change in either late payment charge is necessary.

b. <u>A5, Charges Applicable Under Special Conditions</u>

Items in this tariff section include special construction, special service, and contract service arrangements. All of these arrangements are based on the cost, maintenance, and operation of the arrangement and thus are done on a case-by-case basis. Accordingly, we find that no changes are necessary.

c. <u>A8, Telephone Answering Service</u>

Telephone Answering Service is when the Company provides facilities for use by telephone answering bureaus in order to provide telephone answering service. This service was addressed in

Docket 910697-TL, the Company's recently approved local private line tariff filing, and we find that no changes are needed.

d. A10, Digital Network Services

Digital Network Services (other than Digital Channel Capacity) include Switched Data, Integrated Services Digital Network (ISDN), and Customer Network Control (CNC). Switched Data is a digital data transmission service which provides a data link between two switched data users via the switched network. This service was approved in Docket Number 910259-TL.

ISDN is a central office based service arrangement which provides for local exchange access, interexchange access, business group communications and feature packages. The rates for ISDN were approved in Docket Number 910534-TL.

CNC service provides customers flexibility in managing and reconfiguring their special service networks. It is a central office based service which enables customers to electronically reconfigure their private lines services from one line to another line controlled from a single customer's location. These rates were approved in Docket Number 920280-TL and became effective April 25, 1992. In that these are recently tariffed services all of which cover their respective costs, we find that no changes are necessary.

e. A12, Centrex Service

A CentraNet tariff restructure was filed with the Commission in 1991 (Docket Number 910630-TL). We have reviewed these rates and find them to be appropriate market based rates and to cover costs. We find that, other than the changes to CentraNet NARs discussed supra, no changes to GTEFL's centrex service are necessary at this time.

f. A13, Miscellaneous Service Arrangements

The Miscellaneous Service Arrangements section consists of numerous offerings such as Extension Line Channels, Touch Call Service, Special Billing, Smart Call, 976 Dial-It, and Direct Inward Dial/Identified Outward Dialing (DID/IOD). All of the services in this section are vertical/discretionary services and have been changed in one form or another within the last few years.

However, there is one service in this section which we believe warrants some discussion and that is Touch Call. At the service hearings held in Tampa, Sarasota, and St. Petersburg, several customers mentioned that they were displeased that they had to pay a separate rate for Touch Call.

This Commission has, whenever possible, tried to eliminate the touch tone element.

GTEFL witness Klassen in his revised testimony proposed that the Company's embedded gross receipts tax (GRT) be separately stated on customers' bills. This means that unless rates are reduced even if a tariffed rate did not change, the customer's total bill would change. As an example, a $10.00 rate has embedded in it a $.15 GRT. If the rate is not changed and the GRT is separately stated, the customer's bill will go up to $10.15. All GTEFL rates have GRT embedded. Rather than decrease all rates by 1.5%, in several other cases where we have approved unbundling the GRT, we have attempted to change a rate which touches many customers. The amount of the embedded GRT is $8,449,071. The amount of revenue derived from Touch Calling in the test year is $9,095,994. In this case, we find that GRT shall be separately stated and that the touch calling charge shall be eliminated.

g. A15, Connection of Customer-Provided Terminal Equipment and Communications Systems

The Trouble Location Charge of $65.00 is the only charge in this section. This is a non-recurring charge for each repair visit to a subscriber's premises in connection with a service difficulty when it is determined that the difficulty is due to a condition in the customer-provided multiline terminal equipment or communications system, or is due to a condition in the inside wire on the subscriber's side of the multiline system demarcation point. This rate element applies only to multiline customers.

Although the Company has not completed any recent cost studies (the last cost study was completed in 1987) pertaining to multiline trouble location charge, we find no reason to believe a rate change is required. Thus, the current rates shall remain in effect.

h. A17, Mobile Telephone Service

This service is old and almost obsolete. The Company is currently evaluating this service offering. GTEFL has no intention of deleting the mobile telephone service in the near future because the Company believes that the "existing frequencies" used by mobile telephone service have value and worth protecting even considering the declining revenue. We find the Company's rationale to be reasonable. However, when there are no longer any customers, we find that the Company should consider eliminating the service.

i. A20, Interconnection of Mobile Services

As a part of our Order Extending Tariffs Expiration Dates issued December 12, 1988 in Docket No. 870675-TL, we approved the Mobile Service tariff currently in existence. The tariff contains the rate structure and the rate level for the Interconnection of Mobile Services. In that Docket, we also approved for all mobile carriers the rates for trunks and trunk terminations in the LEC's current CMC tariffs.

While the rate level for usage was tied to the access rates being charged on intrastate rates, the interconnection charges were not. With the exception of the automatic flow-through of changes in the access rates, neither the usage element nor the interconnection elements have been changed in either level or structure since the aforementioned Order was entered. These rates and structures were negotiated on a statewide basis between the LECs and the mobile carriers. We do not find it to be appropriate (nor has any party proposed) to change them in this case.

j. A23, Interconnection of Local Exchange Services to Shared Tenant Services

We authorized reductions to usage charges for shared tenant services (STS) in Docket No. 910783-TS (Order No. 25169, issued October 8, 1991), to mirror the usage rates previously approved for nonLEC PATS providers. Other than the revisions to STS access lines rates addressed in the instant Order, we find that no other changes are appropriate at this time.

k. A24, Emergency Reporting Services (911 and E911)

This service is currently under review by the Company. The Company may propose minor tariff modifications for this service within the next year. Hence, no changes are necessary at this time.

l. A27, Equipment for Disabled Customers

In Docket No. 830202-TP, Order No. 13906, (the Hearing Impaired Docket) we decided that because of the specialized customer premises equipment and its importance in providing network access to hearing and speech impaired persons, this equipment should be priced to cover fully allocated costs without inclusion of a rate of return on the investment component. GTEFL asserts that, because of the unique nature of and limited demand for this equipment, no changes are appropriate. We agree, but suggest that GTEFL conduct a cost study to ensure that this equipment is still priced at cost.

m. A28, Personal Page Signaling Service

The rates for this service were approved in Docket Number 9200204-TL in 1992. Based on the cost study presented in that Docket, the rates for this service are market based and cover costs. Thus, no change is necessary.

n. A108-A312, Obsolete Tariff Offerings

The Company has not proposed any rate changes for obsolete tariff offerings. It is GTEFL's intent to migrate customers from these services to other services through various marketing efforts. We find this to be appropriate. However, as customers are moved to other suitable services, GTEFL should begin to eliminate the obsolete services.

o. E9, Directory Assistance Access Service

Directory Assistance Access Service provides: (1) Directory Assistance access to Directory Service locations, (2) the use of Directory Assistance Service access equipment, and (3) the use of Directory Assistance operators to provide telephone numbers. GTEFL has not proposed any changes to the Directory Assistance Access Service due to the increasingly competitive nature of this service. GTEFL asserts that since its subscribers are able to obtain this service from other sources such as electronic white pages, their demand is very sensitive to any price change.

We agree that no changes are necessary at this time since the rates for this service were recently approved and are identical to those charged by other LECs.

p. E14, Special Construction

This section includes rate elements for customers who have Individual Case Basis or Contract arrangements with GTEFL. After a special construction contract is ordered following the regulations in A5, cost studies are performed and rates are determined at the beginning of the contract and are in effect for the period of the contract. No rate changes are appropriate for this section because these contracts will remain in effect through the 1993 time period.

q. Other Items

The majority of the revenue categories referred to in this section are nontariffed items which were examined during the revenue requirements phase of this proceeding. We note that the revenue requirements impact of depooling intraLATA private line (which accounts for the elimination of private line settlements) was dealt with in the revenue requirements phase of this proceeding; the implicit shift in revenue recovery is accounted for in our rate design considerations. Otherwise, we find that no changes are necessary.

N. Tariff Effective Date

We approve the following stipulation:

The Company will file tariffs on December 31, 1992 with an effective date of January 6, 1993.

O. Customer Notification

We approve the following stipulation:

Customers shall be notified of any rate changes with a bill insert in their first bill after the effective dates of the rate change.

P. Bill Stuffer Information

We approve the following Stipulation:

a) An overview of the case and a summary of the final order;

b) a summary of services for which rates have been adjusted (current rates and approved rates listed side by side);

c) a statement that information on new rates is available from each of the Company's business offices and service centers; and,

d) an explanation of the credit for discontinuance or modification of service and how it may be obtained.

The bill stuffer shall be submitted to staff for review within five days of the Commission vote.

Q. Cross-Subsidy and Investment

1. Competitive and Effectively Competitive Services

FCTA raised the issue of whether GTEFL should be allowed to cross-subsidize its entry into competitive or effectively competitive services. Certain forms of cross-subsidization are explicitly forbidden by statute. Specifically, Section 364.3381(1), Florida Statutes, prohibits a LEC from subsidizing a competitive service where the source of the subsidy is revenue derived from monopoly services subject to our jurisdiction. FCTA asserts that the cross-subsidization prohibition applies to two classes of services: competitive services and effectively competitive services. GTEFL agrees that Section 364.3381 applies to effectively competitive services, but argues that it does not apply to "competitive services" because the statutes do not recognize the existence of any such class of service.

Section 364.02(3), Florida Statutes, defines "monopoly service" as a service for which there is no effective competition, either in fact or by operation of law. We find that this definition supports the Company's claim that the cross-subsidization prohibition applies only to effectively competitive services.

Neither FCTA, the proponent of this issue, nor any other party to this proceeding submitted any testimony or exhibits pertinent to this matter. Other than attempts by FCTA during cross-examination to have Company witnesses agree that GTEFL provided "competitive services," as this term is used in Section 364.3381, we find that there is no evidence in the record to support FCTA's position. In summation, cross-subsidization of competitive services by monopoly services, where "competitive services" is understood to denote effectively competitive services, is prohibited by statute. Beyond noting these statutory restrictions, the record in this proceeding supports no further conclusions.

2. Basic Telephone Service

FCTA also raised this issue regarding whether GTEFL's basic telephone rates should be based on the most cost effective means of providing service. Neither FCTA nor any other party in this proceeding submitted direct testimony which addressed this issue. The record was developed by FCTA during cross-examination of various witnesses. GTEFL has not taken any position on this issue, other than to state that it does not understand the intent of the issue.

FCTA asserts that "most cost-effective" is the least costly alternative of providing service to the customer. FCTA asserts that basic telephone service includes local, long distance, switched interconnection and access services for both data and voice communications. FCTA contends that custom calling features, such as call forwarding, would not be considered basic telephone services because they are a complement to basic service. However, FCTA asserts touchtone would be a basic telephone service because it eases access to the network for the customer and is the least cost manner of providing the service.

Intermedia defines basic telephone service as residential and business access lines and related switching functions, excluding private line or high capacity facilities. Intermedia does not consider high capacity facilities, such as DS-1s and DS-3s, basic telephone services because they are not absolutely necessary to provide basic telecommunications.

One element common to GTEFL, FCTA and Intermedia in defining basic telephone service, is whether or not there are competitive alternatives to a particular service.

Based on the evidence and testimony offered in this proceeding, we find that no unique characterization of "basic telephone service" can be drawn from this record. However, Section 364.01 (3) (a) and (e), Florida Statutes provides that the Commission shall exercise its exclusive jurisdiction in order to:

(a) "Protect the public health, safety, and welfare by ensuring that <u>basic telecommunications services</u> are available to all residents of the state at reasonable and affordable prices."

(e) "Recognize the continuing emergence of a competitive telecommunications environment through flexible regulatory treatment of competitive telecommunications services, where appropriate, if doing so does not reduce the availability of adequate <u>basic local exchange service</u> to all citizens of the state at reasonable and affordable prices,..."

Although Section 364.02, does not define basic telecommunications services or basic local exchange telephone service, the language in the Statute emphasizes the importance of providing services to all customers at reasonable and affordable prices. Thus, we find that GTEFL's basic telephone rates shall be based on the most cost effective means of providing basic telephone service.

3. <u>Competitive v. Monopoly/Intrastate Investments</u>

FCTA raised this issue of whether GTEFL should segregate revenues and expenses between competitive and monopoly services. FCTA contends that the Company offers various services for which there is competition from other providers, as well as monopoly services for which it faces no competition. FCTA highlights statements by Company witnesses which indicate that it needs to restructure rates for certain services in order to be competitive with other providers. Thus, since GTEFL is a regulated monopoly that offers both "competitive" and "monopoly" services, FCTA concludes that the Company is subject to the cross-subsidization requirements of Section 364.3381(2), Florida Statutes. Moreover, FCTA asserts that any rates approved in this proceeding should be conditioned upon the outcome of further proceedings wherein GTEFL's intrastate investments and expenses are segregated between monopoly and competitive services, to ensure that monopoly services are not subsidizing competitive services. Ad Hoc and Intermedia apparently endorse FCTA's position, although they are silent as to any specifics.

GTEFL asserts that the Company cannot be subject to the cross-subsidization restrictions of Section 364.3381(2) as interpreted by FCTA because the Florida Statutes do not recognize "competitive service" as an identifiable category.

FCTA was unable to establish that the existence of competition in the economic sense was sufficient to require the implementation of Section 364.3381(2). Moreover, since FCTA presented no affirmative case and no other party presented testimony on this matter, we are unable to conclude that the existence of economic competition for a given service is sufficient to trigger the process in Section 364.3381. Accordingly, the record in this proceeding is insufficient to support a determination that the Company should be required to segregate its intrastate investments and expenses between competitive and monopoly services. We have found no record support for FCTA's claim that any rates authorized in this case should be conditioned by subsequent proceedings dealing with the segregation of investments and expenses between monopoly and competitive services.

4. <u>Allocation of Costs of Joint Facilities</u>

FCTA asserts that Section 364.3381, Florida Statutes requires the costs of joint facilities to be allocated between monopoly and competitive services in accord with a Commission-prescribed allocation methodology. Neither FCTA, the proponent of this issue, nor any other party submitted testimony on this matter. Moreover, FCTA did not explicitly discuss cost allocations during its cross-examination of any witness during the hearings. FCTA phrased this issue to inquire <u>how</u> any such allocations should be performed. However, FCTA's position is not responsive to the issue but, in effect, merely states that allocations must be performed.

Although Ad Hoc did not address this issue in its testimony, it asserts that the direct costs of monopoly and competitive services, respectively, should first be identified, and then the remaining costs be assigned to these two categories on a pro rata basis.

Intermedia's position appears to be that instead of an allocation of costs between monopoly and competitive services, a resale requirement should be imposed as a safeguard against cross-subsidization. As envisioned, the resale requirement would require that GTEFL resell to its competitors the use of certain services at the same cost that is implicit in the rates the Company charges its customers for those services. Although the resale proposal would ensure Intermedia's competitive position in the market for those services also offered by GTEFL, Intermedia witness Tolliver admitted during cross-examination that his proposal would not ensure that cross-subsidization did not occur.

We find that the record in this proceeding is void of any substantive evidence which would provide guidance as to <u>how</u> to allocate joint costs between monopoly and competitive services. Accordingly, we find that it is not possible to provide a meaningful resolution of the issue as presented in this record.

5. <u>Video Transport Service</u>

GTEFL does not currently provide any intrastate or interstate video transport services. However, during the course of the hearing GTEFL announced that it had filed a video transport services tariff with the FCC.

FCTA asserts that GTEFL's investments and costs for video transport service have not been appropriately identified and accounted for separately. FCTA argues that the Company will incur $2.7 million in direct costs associated with the construction of a video transport network in Tampa. Furthermore, FCTA questions the use of common assets, such as conduits being used to provide housing for monopoly wires and for the fibers. FCTA entered no evidence into the record to substantiate its claim that the Company has inappropriately identified and accounted for the expenditures associated with video transport service in this rate case.

GTEFL argues that the interstate video transport service, when it becomes available, would be assigned to the interstate jurisdiction. Since the separations procedures provide for direct assignment of costs for all wide band and broad band services, these costs will be directly assigned to the interstate jurisdiction. GTEFL also responds to FCTA's concerns regarding the treatment of common assets, such as conduits, and common costs, such as general administrative costs; the Company conducts traffic studies analyzing circuit records, various service records, and other accounting records to identify where there may be common usage of assets.

We note that FCC Part 36 provides specific guidelines for separations between interstate and intrastate for these costs and find that no evidence has been introduced to indicate that the Company is not in compliance with FCC Part 36. Thus, we find that the Company is appropriately identifying and separating the costs associated with interstate video transport service.

6. Costs & Revenues/Non-Regulated Services

FCTA asserts that the Company's costs and revenues from non-regulated services have not been appropriately identified and accounted for separately. However, we find no support in the record to substantiate FCTA's assertion.

7. Overhead Allocations & Affiliate Transactions

FCTA asserts that the Company's overhead allocations and affiliate transactions have not been properly accounted for in this case. However, we find no support in the record to substantiate FCTA's assertion.

8. Replacement of Copper with Fiber

We approve the following stipulation:

"The depreciation rates stipulated to by the parties are prudent for the provision of basic local telephone services as they are currently offered."

It should be noted that the parties in this Docket who were not parties in Docket No. 920284-TL do not oppose the stipulation of this issue. However, they do not join the stipulation in this Docket regarding the meaning of a stipulation approved by the Commission in the depreciation Docket.

## XIII. FINDINGS OF FACT

FCTA has submitted proposed findings of fact to this proceeding pursuant to Rule 25.22.056 (2), Florida Administrative Code. The procedural order in this Docket (Order No. PSC-92-0821-PCO-TL) provides that:

> Proposed findings of fact and conclusions of law are not required. However, if proposed findings of fact are submitted, each one must cite to the record, identifying transcript page and line. All proposed findings of fact which relate to a particular issue shall be grouped together and shall identify the issue number to which they relate.

The four FCTA proposed findings do not comply with the aforementioned requirements. In each of its proposed findings, FCTA fails to tie the proposed finding to any specific issue; additionally, FCTA fails to identify the transcript lines for cited support. Moreover, FCTA fails to cite to the transcript in support of its fourth proposed finding, and fails to provide <u>any</u> support for its third proposed finding.

Moreover, it appears that woven in its proposed findings, FCTA asks for conclusions of law. By way of clarification, we note that we have not concluded under the Florida Statutes that there is being offered a competitive service, at least in this Docket, for which it is appropriate to implement the Statutory requirements with respect to the segregation of revenues and costs.

A. <u>First Proposed Finding of Fact</u>

FCTA proposes the following:

> The Commission finds that GTEFL is currently offering monopoly telecommunications services and telecommunications services which are offered by other telecommunications services providers in competition with GTEFL.

As support, FCTA cites various transcript references for testimony that competition exists for some services provided by GTEFL. Based on these cites FCTA concludes that "The testimony of Witnesses McLeod, Foster and Tolliver that GTEFL offers both monopoly telecommunications services and telecommunications services which are offered by other providers in competition with GTEFL is not disputed or contradicted by any witness in this Docket." We note that Mr. Foster is not a witness in this proceeding, but counsel for GTEFL; perhaps FCTA intended to refer to GTEFL witness Fulp.

We have concerns regarding the factual conclusion which FCTA wishes us to reach. Fundamentally, it appears that FCTA is attempting to establish the existence of a legal distinction --

monopoly telecommunications services versus competitive telecommunications services -- for which there is no support in the record. FCTA cites, for example, the testimony of Intermedia's witness Tolliver that his company competes with GTEFL for the provision of certain types of services. However, in spite of attempts by FCTA's counsel during cross-examination of witness Tolliver to have the witness introduce the statutory definition of competition, Mr. Tolliver limited his responses to "the business or economic sense, not the statutory definition." Similarly, GTEFL witness McLeod, testifying in response to FCTA's cross examination, made it quite clear that he was responding to questions regarding competition solely in the economic sense, not in terms of the Florida Statutes.

The Florida Statutes provide for a regulatory framework within which meaning is ascribed to a distinction between monopoly and competitive telecommunications services. See, e.g., Section 364.02(3), Florida Statutes. However, we find that the record is unequivocal that competition-related matters were not discussed from a regulatory perspective. Accordingly, while the record appears to contain ample evidence to support a finding that economic competition exists between GTEFL and other providers for certain telecommunications services in some submarkets, we find that the record relates solely to the economic notion of competition, and that no inference regarding "monopoly services" is warranted. Thus, the proposed finding is rejected.

B. Second Proposed Finding of Fact

FCTA proposes the following:

> The Commission finds that GTEFL intends to provide video transport services which are offered by other telecommunications services providers in competition with GTEFL.

GTEFL witness McLeod acknowledged that the Company anticipated filing an interstate tariff to offer video transport services, and that since cable television operators in GTEFL's service area also transport video, they are competitors in the economic sense. Intermedia witness Tolliver also stated that his company was capable of offering video transport service and would be in economic competition with GTEFL's anticipated video transport service. GTEFL subsequently indicated that it filed a video band services tariff with the FCC on October 13, 1992. FCTA concludes that the competitive nature of the video transport service which GTEFL intends to offer is not disputed or contradicted by any witness in this Docket.

Based the record, we find that GTEFL intends to offer video transport service in its service territory, and that other providers either do offer, or are capable of offering, a similar service. Thus, we adopt FCTA's Second Proposed Finding of Fact.

C. Third Proposed Finding of Fact

FCTA proposes the following:

> The Commission has not prescribed any allocation methodologies for purposes of s. 364.3381, F.S., pursuant to which a local exchange telecommunications company offering both monopoly and competitive telecommunications is required to segregate its intrastate investments and expenses.

FCTA's Third Proposed Finding of Fact appears to be a true statement. While FCTA has cited no support in the record for this proposed finding of fact and, indeed, there is nothing in this record to support the finding, we find that it is appropriate to officially recognize the fact. That done, we also find that it is appropriate to put the fact in its regulatory context.

Section 364.3381, addresses cross-subsidization of competitive services by monopoly services. While it is true that we have not prescribed allocation methodologies pursuant to Section 364.3381, Florida Statutes, this is because certain actions are necessary before such an allocation methodology can be formulated. First and foremost, in order to implement the cross-subsidization statute, it is necessary to determine what cross-subsidy is and how its presence can be discerned. Next, a determination must be made as to which services the cross-subsidy restrictions should apply. Absent a resolution of these two key matters, attempts at formulating any allocation methodology would be futile. (These two matters are being addressed in Docket No. 910757-TP, Cross-Subsidy Docket, which is scheduled for hearing in March 1993.) Finally, the development of any required allocation methodology will proceed in Docket No. 900633-TL, Development of LEC Cost Study Methodologies. Thus, we are actively investigating the preconditions for implementing Section 364.3381, Florida Statutes.

D. Fourth Proposed Finding of Fact

FCTA proposes the following:

> GTEFL does not segregate its intrastate investments and expenses to insure that competitive telecommunications

services which GTEFL offers are not subsidized by monopoly telecommunications services offered by GTEFL.

FCTA concludes that because we have not prescribed any allocation methodologies for purposes of Section 364.3381 (FCTA's Third Proposed Finding of Fact), GTEFL does not segregate its intrastate investments and expenses between monopoly and competitive services.

However, as discussed in our consideration of FCTA's First Proposed Finding of Fact, there is no record support for the proposition that GTEFL offers competitive services, within the meaning of Chapter 364. To the contrary, the record clearly indicates that various witnesses restricted their comments to the economic sense of competition, not the legal notion. Since a presupposition underlying FCTA's Fourth Proposed Finding of Fact is unsupported by the record, we reject FCTA's Fourth Proposed Finding of Fact.

Therefore, based upon the foregoing it is

ORDERED by the Florida Public Service Commission that each and every finding set forth herein is approved in every respect. It is further

ORDERED that stipulations are approved as set forth in the body of this Order. It is further

ORDERED that GTE Florida Incorporated's overall quality of service is adequate. It is further

ORDERED that the Company shall modify its Trouble Analysis System to eliminate the capability of a repair person in the field to change out-of-service reports to a non-out-of-service condition. It is further

ORDERED that a test year using the historical 12 months ending December 31, 1991 as adjusted for appropriate rate year changes through December 31, 1993 is hereby approved. It is further

ORDERED that the approved repression and stimulation estimates are set forth in the body of this Order. It is further

ORDERED that GTEFL shall reduce its rates by $14,475,000, as set forth in the body of this Order. It is further

ORDERED that intrastate rate base is $1,902,319,000. It is further

ORDERED that the overall required rate of return is 8.82%. It is further

ORDERED that the appropriate return on equity is 12.2% with a range of 100 basis points. It is further

ORDERED that the required net operating income (NOI) is $167,785,000 and that the test year NOI is $176,671,000 which produces an NOI excess of $8,886,000. It is further

ORDERED that the Company is required to submit the reports, filings and documents as described in the body of this Order. It is further

ORDERED that matters regarding SFAS 106 are resolved as set forth in the body of this Order. It is further

ORDERED that rate design and tariff changes shall be implemented as set forth in the body of this Order. It is further

ORDERED that Plant City customers shall be balloted for non-optional flat rate, two way extended area service with regrouping only. It is further

ORDERED that the record in this proceeding does not support FCTA's First Proposed Finding of Fact as phrased. It is further

ORDERED that FCTA's Second Proposed Finding of Fact is adopted. It is further

ORDERED that FCTA's Third Proposed Finding of Fact is not susceptible to proof based upon the evidentiary record in this administrative proceeding as set forth in the body of this Order. It is further

ORDERED that FCTA's Fourth Proposed Finding of Fact is unsupported by the record in this proceeding and shall not be adopted. It is further

ORDERED that these dockets shall remain open.

By ORDER of the Florida Public Service Commission, this 21st day of January, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

( S E A L )

CWM

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

# GTE Florida
## Docket No. 920188–TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| | | Local Revenues: | | | | | | | |
| | A2 | General Regulations | | | | | | | |
| 46 | A2.3 | Suspension of Service – Flat | $4,126,104 | $6,638,740 | $2,512,636 | 60.90% | $4,256,162 | $130,058 | 3.15% |
| 46 | A2.3 | Suspension of Service – Message | 1,412,426 | 2,278,878 | 866,452 | 61.34% | 1,462,105 | $49,679 | 3.52% |
| 48 | A2 | General Regulations Nonrecurring | 4,339,953 | 4,339,953 | | | 4,339,953 | | |
| | A2 | Total | $9,878,483 | $13,257,571 | $3,379,088 | 34.21% | $10,058,220 | $179,737 | 1.82% |
| | A3 | Basic Exchange Service | | | | | | | |
| 45 | A3.2 | Business – Flat Rate | $155,547,390 | $196,957,819 | $41,410,429 | 26.62% | $147,212,729 | ($8,334,661) | –5.36% |
| 45 | A3.2 | Residence – Flat Rate | 159,671,143 | 187,597,573 | 27,926,430 | 17.49% | 159,654,894 | ($16,249) | –0.01% |
| 44 | A3.2 | Business – Message Rate (no call allowance) | 1,874,668 | 3,920,070 | 2,045,402 | 109.11% | 3,380,044 | $1,505,376 | 80.30% |
| 43 | A3.2 | Residence – Message Rate | 8,077,228 | 25,259,739 | 17,182,511 | 212.73% | 8,181,198 | $103,970 | 1.29% |
| 43/44 | A3.2 | Additional Local Messages | 1,175,863 | 4,432,452 | 3,256,589 | 276.95% | 1,175,863 | | |
| 45 | A3.13 | Network Access Register – Flat | 3,017,476 | 3,018,884 | 1,408 | 0.05% | 2,642,087 | ($375,389) | –12.44% |
| 45 | A3.13 | Network Access Register – Message | 27,821 | 33,686 | 5,865 | 21.08% | 49,108 | $21,287 | 76.51% |
| 39 | A3.14 | Optional Extended Area Service | 256,311 | 256,311 | | | 0 | ($256,311) | –100.00% |
| 39 | A3.15 | Extended Calling Service | 25,477,360 | 25,477,360 | | | 23,482,483 | ($1,994,877) | –7.83% |
| 39 | A3.15 | Expanded Extended Calling Service | 0 | 7,041,932 | 7,041,932 | --- | 3,582,613 | $3,582,613 | --- |
| 39 | A3.15 | Pasco County ECS | 773,425 | 773,425 | | | 773,425 | | |
| 39 | A3.15 | County Wide Calling | 0 | 4,447,131 | 4,447,131 | --- | | | |
| 41 | A3.10 | Directory Assistance Service | 6,281,609 | 9,710,056 | 3,428,447 | 54.58% | 7,702,438 | $1,420,829 | 22.62% |
| 41 | A3.11 | Operator Assisted Calls | 6,112,749 | 7,985,799 | 1,873,050 | 30.64% | 6,537,772 | $425,023 | 6.95% |
| 41 | A3.12 | Verification and Emergency Interrupt | 169,029 | 188,058 | 19,029 | 11.26% | 191,914 | $22,885 | 13.54% |
| | | EAS: | | | | | | | |
| | | North Port – Sarasota | | | | | 546,204 | $546,204 | |
| | | Plant City – Tampa | | | | | 357,511 | $357,511 | |
| | A3 | Total | $368,462,072 | $477,100,295 | $108,638,223 | 29.48% | $365,470,283 | ($2,991,789) | –0.81% |

# GTE Florida

## Docket No. 920188–TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| | A4 | Service Charges | | | | | | | |
| 41 | A4.7 | Network Access Establishment | $13,021,160 | $9,853,506 | ($3,167,654) | –24.33% | $9,853,506 | ($3,167,654) | –24.33% |
| 41 | A4.7 | Network Access Change Charge | 1,147,344 | 1,147,344 | | | 1,147,344 | | |
| 41 | A4.7 | Central Office Line Connection | 9,934,680 | 17,385,690 | 7,451,010 | 75.00% | 17,385,690 | $7,451,010 | 75.00% |
| 41 | A4.7 | Premises Visit | 3,384 | 19,740 | 16,356 | 483.33% | 19,740 | $16,356 | 483.33% |
| 41 | A4.7 | Telephone Number Change | 354,240 | 354,240 | | | 354,240 | | |
| 46 | A4.7 | Restoration of Service | 2,612,304 | 4,104,216 | 1,491,912 | 57.11% | 4,104,216 | $1,491,912 | 57.11% |
| | A4 | Total | $27,073,112 | $32,864,736 | $5,791,624 | 21.39% | $32,864,736 | $5,791,624 | 21.39% |
| 48 | A5 | Charges Applicable Under Special Conditions | $5,623,212 | $5,623,212 | | | $5,623,212 | | |
| | A6 | Directory Listings | | | | | | | |
| 41 | A6.4 | Nonpublished Telephone Numbers | $5,426,592 | $6,730,170 | $1,303,578 | 24.02% | $5,426,592 | | |
| 41 | A6.5 | Nonlist Telephone Numbers | 84,955 | 151,248 | 66,293 | 78.03% | 84,955 | | |
| 41 | A6.6 | Additional Listings | 793,978 | 793,978 | | | 793,978 | | |
| 41 | A6.7 | Miscellaneous Listings | 798,907 | 798,907 | | | 798,907 | | |
| 41 | A6.7 | Directories | 213,253 | 371,449 | 158,196 | 74.18% | 371,449 | $158,196 | 74.18% |
| | A6 | Total | $7,317,685 | $8,845,752 | $1,528,067 | 20.88% | $7,475,881 | $158,196 | 2.16% |
| | A7 | Coin Telephone Service | | | | | | | |
| 48 | A7 | Public Telephone Service,Message Charges | $11,556,444 | $11,556,444 | | | $11,556,444 | | |
| 41/45 | A7.2 | Semipublic Telephone | 1,897,197 | 3,177,491 | 1,280,294 | 67.48% | 2,250,860 | $353,663 | 18.64% |
| 45 | A7.3 | Public Telephone Access Service (CPE) | 3,831,198 | 4,799,334 | 968,136 | 25.27% | 3,831,198 | | |
| 48 | A7.4 | Speed Dialing | 119,239 | 119,239 | | | 119,239 | | |
| 41 | A7.2 | Semipublic Telephone Nonrecurring | 11,616 | 54,150 | 42,534 | 366.17% | 54,150 | $42,534 | 366.17% |
| 48 | A7.3 | Public Telephone (CPE) Nonrecurring | 30,960 | 30,960 | | | 30,960 | | |
| | A7 | Total | $17,446,654 | $19,737,618 | $2,290,964 | 13.13% | $17,842,851 | $396,197 | 2.27% |

# GTE Florida
## Docket No. 920188–TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| 48 | A8 | Telephone Answering Service Facilities | $276,000 | $276,000 | | | $276,000 | | |
| 36 | A9 | FX, FCO Service, and Tampa Metro Plan | $4,409,291 | $3,307,260 | ($1,102,031) | –24.99% | $4,061,710 | ($347,581) | –7.88% |
| 45/48 | A10 | Digital Network Services | $2,849,857 | $2,842,816 | ($7,041) | –0.25% | $2,738,184 | ($111,673) | –3.92% |
| 48 | A12 | Centrex Service | $2,613,059 | $2,613,059 | | | $2,613,059 | | |
| | A13 | Miscellaneous Service Arrangements | | | | | | | |
| 45 | A13.2 | Extension Line Channels | $2,492,661 | $3,215,293 | $722,632 | 28.99% | $2,492,661 | | |
| 48 | A13.4 | Touch Calling | 9,042,834 | 9,042,834 | | | 0 | ($9,042,834) | –100.00% |
| 48 | A13.4 | Touch Calling–Nonrecurring | 53,160 | 53,160 | | | 0 | ($53,160) | –100.00% |
| 48 | A13.7 | Special Billing Services | 154,344 | 154,344 | | | 154,344 | | |
| 48 | A13.9 | Local Calling Area Conference Service | 922 | 922 | | | 922 | | |
| 45 | A13.10 | Long Distance Trunk Service | 282,303 | 419,159 | 136,856 | 48.48% | 282,303 | | |
| 48 | A13.12 | Community Fire Reporting Service | 15,792 | 15,792 | | | 15,792 | | |
| 41 | A13.14 | SmartCall, Each Feature | 2,095,257 | 2,117,127 | 21,870 | 1.04% | 2,117,127 | $21,870 | 1.04% |
| 48 | A13.14 | SmartCall, Packaged | 22,259,127 | 22,259,127 | | | 22,259,127 | | |
| 48 | A13.14 | Custom Calling Area Signalling Service | 12,659,580 | 12,659,580 | | | 12,659,580 | | |
| 48 | A13.16 | Dial Data Link Service | 1,021,920 | 1,021,920 | | | 1,021,920 | | |
| 45 | A13.17 | Announcement Services | 16,542 | 24,591 | 8,049 | 48.66% | 16,542 | | |
| 45 | A13.19 | Information System Access Lines | 263,335 | 263,013 | (322) | –0.12% | 232,406 | ($30,929) | –11.75% |
| 48 | A13.20 | DID and IOD service | 4,764,307 | 4,764,307 | | | 4,764,307 | | |
| 48 | A13.22 | Break In Rotary Group | 49,115 | 49,115 | | | 49,115 | | |
| 48 | A13.23 | Restricted Sent Paid Service | 6,330 | 6,330 | | | 6,330 | | |
| 48 | A13.25 | Remote Call Forwarding | 475,776 | 475,776 | | | 475,776 | | |
| 48 | A13.26 | Customized Code Restriction | 746,721 | 746,721 | | | 746,721 | | |

# GTE Florida
## Docket No. 920188–TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| 48 | A13.27 | Dial–It 976 Service | 178,968 | 178,968 | | | 178,968 | | |
| 48 | A13.30 | Intercept Message on the Move | 417,108 | 417,108 | | | 417,108 | | |
| 48 | A13.32 | Billed Number Screening | 1,290,276 | 1,290,276 | | | 1,290,276 | | |
| 48 | A13.33 | Services for ESPs | 2,061,906 | 2,061,906 | | | 2,061,906 | | |
| 48 | A13/39 | Telecommunications Service Priority System | 8,595 | 8,595 | | | 8,595 | | |
| 48 | A13.5 | Duplicate Bill Charges – Nonrecurring | 20,868 | 20,868 | | | 20,868 | | |
| 48 | A13.15 | List Service – Nonrecurring | 32,900 | 32,900 | | | 32,900 | | |
| 48 | A13.16 | Dial Data Link – Nonrecurring | 20,100 | 20,100 | | | 20,100 | | |
| 48 | A13/19 | Restricted Sent Paid Service – Nonrecurring | 1,435 | 1,435 | | | 1,435 | | |
| 48 | A13.26 | Customized Code Restriction – Nonrecurring | 477,840 | 477,840 | | | 477,840 | | |
| 48 | A13.29 | GTE Name/Address Service | 569,547 | 569,547 | | | 569,547 | | |
| 48 | A13.33 | Services for ESPs – Nonrecurring | 1,194,000 | 1,194,000 | | | 1,194,000 | | |
| 48 | A13/41 | Telecommunications Service Priority System | 88,704 | 88,704 | | | 88,704 | | |
| | A13 | Total | $62,762,273 | $63,651,358 | $889,085 | 1.42% | $53,657,220 | ($9,105,053) | –14.51% |
| 48 | A15 | Customer Provided Term'l Equip. and Comm | $88,140 | $88,140 | | | $88,140 | | |
| 48 | A17 | Mobile Telephone Service | $34,092 | $34,092 | | | $34,092 | | |
| 38 | A20 | Interconnection of Mobile Services | $4,756,867 | $4,466,183 | ($290,684) | –6.11% | $4,607,521 | ($149,346) | –3.14% |
| 45 | A23 | Interconnection of Local Exchange Services to Shared Tenant Services | $542,337 | $602,369 | $60,032 | 11.07% | $518,111 | ($24,226) | –4.47% |
| 48 | A24 | Emergency Reporting Services | $2,388,156 | $2,388,156 | | | $2,388,156 | | |
| 36 | A25 | Intraexchange Private Line Services | $10,917,817 | $10,917,817 | | | $10,917,817 | | |

GTE Florida
Docket No. 920188-TL Test Year: 1993
Revenue Distribution Comparison
COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| 48 | A27 | Equipment For Disabled Customers | $11,088 | $11,088 | | | $11,088 | | |
| 48 | A28 | Personal Page Signaling Services | $1,224,600 | $1,224,600 | | | $1,224,600 | | |
| 36 | A105 | Charges Applicable Under Special Conditions – Obsolete | $135,825 | $135,825 | | | $135,825 | | |
| 48 | A108 | Obsolete Telephone Answering Service Facilities | $106 | $106 | | | $106 | | |
| 48 | A112 | CentraNet Service – Obsolete | $0 | $0 | | | $0 | | |
| 48 | A113 | Obsolete Miscellaneous Service Arrangements | $269,505 | $269,505 | | | $269,505 | | |
| 48 | A117 | Obsolete Mobile Telephone Service | $144 | $144 | | | $144 | | |
| 48 | A124 | Obsolete Emergency Reporting Services | $9,240 | $9,240 | | | $9,240 | | |
| 36 | A125 | Intraexchange Private Line Service – Obsolete | $1,951,497 | $1,951,497 | | | $1,951,497 | | |
| 48 | A312 | Obsolete Customer Premises Equipment | $0 | $0 | | | $0 | | |

# GTE Florida
## Docket No. 920188-TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| | | **Total Local Revenues** | $531,041,112 | $652,218,439 | $121,177,327 | 22.82% | $524,837,198 | ($6,203,914) | -1.17% |
| | | **Toll and Private Line Revenues:** | | | | | | | |
| 36 | A9 | Foreign Exchange Service and Foreign Central Office Service | $4,800,139 | $3,852,509 | ($947,630) | -19.74% | $4,451,965 | ($348,174) | -7.25% |
| | A18 | MTS | | | | | | | |
| 36 | A18.5 | MTS | $68,022,907 | $40,026,294 | ($27,996,613) | -41.16% | $54,251,040 | ($13,771,867) | -20.25% |
| 41 | A18.5 | Operator Assisted IntraLATA Toll | 1,796,751 | 1,472,607 | (324,144) | -18.04% | 1,230,043 | ($566,708) | -31.54% |
| 41 | A18.8 | Directory Assistance | 2,118,432 | 2,957,602 | 839,170 | 39.61% | 2,965,803 | $847,371 | 40.00% |
| 41 | A18.9 | Verification and Interrupt Service | 49,681 | 34,500 | (15,181) | -30.56% | 35,019 | ($14,662) | -29.51% |
| 36 | A18.10 | Toll-Pac | 142,055 | 0 | (142,055) | -100.00% | | ($142,055) | -100.00% |
| 36 | A18.10 | Valu-Pak | 109,479 | 95,366 | (14,113) | -12.89% | 101,567 | ($7,912) | -7.23% |
| 36 | A18.10 | Suncoast Preferred Plan 1&2 | 4,327,030 | 2,375,941 | (1,951,089) | -45.09% | 3,520,692 | ($806,338) | -18.63% |
| 36 | A18.10 | Suncoast Preferred Plan 3 | 352,252 | 210,682 | (141,570) | -40.19% | 280,460 | ($71,792) | -20.38% |
| 36 | A18.11 | Meet Me Conference Service | 783,577 | 783,577 | | | 783,577 | | |
| | A18 | Total | $77,702,164 | $47,956,569 | ($29,745,595) | -38.28% | $63,168,201 | ($14,533,963) | -18.70% |
| | A19 | WATS/800 | | | | | | | |
| 36 | A19.4 | Access Line Charges | $621,192 | $621,192 | | | $621,192 | | |
| 36 | A19.4 | Outward WATS IntraLATA | 433,773 | 350,295 | (83,478) | -19.24% | 373,179 | ($60,594) | -13.97% |
| 36 | A19.4 | 800 Service IntraLATA | 1,256,954 | 986,772 | (270,182) | -21.49% | 1,081,365 | ($175,589) | -13.97% |
| 36 | A19.4 | Business Line 800 Service | 2,515,790 | 1,681,379 | (834,411) | -33.17% | 2,164,292 | ($351,498) | -13.97% |
| 36 | A19.4 | Residential Line 800 Service | 176,531 | 116,978 | (59,553) | -33.74% | 151,835 | ($24,696) | -13.99% |
| 36 | A19.4 | Terminating Arrangements and Access Line Extensions | 16,611 | 16,611 | | | 16,611 | | |
| 36 | A19.4 | Variable Call Destination Rates | 226 | 226 | | | 226 | | |
| 36 | A19.4 | Installation Charges | 54,474 | 54,474 | | | 54,474 | | |
| | A19 | Total | $5,075,551 | $3,827,927 | ($1,247,624) | -24.58% | $4,463,171 | ($612,377) | -12.07% |

# GTE Florida
## Docket No. 920188–TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| | A26 | Interexchange Private Line Service | | | | | | | |
| 36 | A26B3.4 | Channels | $7,221,261 | $6,916,740 | ($304,521) | -4.22% | $6,916,740 | ($304,521) | -4.22% |
| 36 | A26B3.4 | Digital Network Service | 4,094,241 | 1,321,536 | (2,772,705) | -67.72% | 1,321,536 | ($2,772,705) | -67.72% |
| 36 | A26B7 | Digital Data Service | 0 | 2,514,903 | 2,514,903 | | 2,514,903 | $2,514,903 | -- |
| 36 | A26 | Channels Nonrecurring | 444,576 | 0 | (444,576) | -100.00% | 0 | ($444,576) | -100.00% |
| 36 | A26B3.4 | Digital Channel Nonrecurring | 198,876 | 0 | (198,876) | -100.00% | 0 | ($198,876) | -100.00% |
| 36 | A26B7 | Design Change Charge | 0 | 569,133 | 569,133 | | 569,133 | $569,133 | -- |
| 36 | A26 | Digital Data Service | 0 | 126,816 | 126,816 | | 126,816 | $126,816 | -- |
| 36 | A26 | High Capacity DS₁ | 0 | 58,212 | 58,212 | | 58,212 | $58,212 | -- |
| | A26 | Total | $11,958,954 | $11,507,340 | ($451,614) | -3.78% | $11,507,340 | ($451,614) | -3.78% |
| 36 | A103 | Obsolete Service Offerings – Channels | $0 | $0 | | | $0 | | |
| 36 | A106 | Obsolete Service Offerings – Dataid Digital Service | 208,303 | 0 | (208,303) | -100.00% | 0 | ($208,303) | -100.00% |
| | | **Total Toll and Private Line Revenues** | $99,745,111 | $67,144,345 | ($32,600,766) | -32.68% | $83,590,680 | ($16,154,431) | -16.20% |
| | | **Access Revenues:** | | | | | | | |
| 38 | E3 | Carrier Common Line Access | $53,295,103 | $53,291,293 | ($3,810) | -0.01% | $56,741,821 | $3,446,718 | 6.47% |
| 38 | E4 | Carrier Access Capacity | $19,004,831 | $0 | ($19,004,831) | -100.00% | $14,148,867 | ($4,855,964) | -25.55% |
| 38 | E5 | Ordering Options for | | | | | | | |

# GTE Florida
## Docket No. 920188-TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| | | Switched & Special Access | $0 | $0 | | | $0 | | |
| 38 | E6 | Switched Access Service | $52,803,271 | $52,700,709 | (102,562) | -0.19% | $53,879,353 | $1,076,082 | 2.04% |
| 38 | E7 | Special Access Service | $7,583,274 | $7,566,967 | ($16,307) | -0.22% | $7,566,967 | ($16,307) | -0.22% |
| 38 | E8 | Ancillary Services | $3,820,322 | $3,920,766 | $100,444 | 2.63% | $3,920,766 | $100,444 | 2.63% |
| 48 | E9 | Directory Assistance | $1,774,905 | $1,774,905 | | | $1,774,905 | | |
| 38 | E13 | Additional Engineering, Labor & Miscellaneous | $0 | $0 | | | $0 | | |
| 48 | E14 | Special Construction | $301,224 | $301,224 | | | $301,224 | | |
| 37 | E15 | Switched Access Volume Election | $0 | ($6,570,000) | ($6,570,000) | --- | $0 | | |
| 38 | E16 | Access Service For LEC Completion of IntraLATA Intercompany MTS/WATS | $0 | $0 | | | $0 | | |
| | | Total Access Revenues | $138,582,930 | $112,985,864 | ($25,597,066) | -18.47% | $138,333,903 | ($249,027) | -0.18% |
| | SUBTOTAL: | Tariffed Intrastate Revenues | $769,369,153 | $832,348,648 | $62,979,495 | 8.19% | $746,761,781 | ($22,607,372) | -2.94% |
| | | Miscellaneous Revenues: | | | | | | | |
| 48 | A | Directory | $109,804,249 | $109,804,249 | | | $109,804,249 | | |

## GTE Florida
## Docket No. 920188–TL Test Year: 1993
## Revenue Distribution Comparison
## COMMISSION APPROVED

| Issue | Tariff Section | Description | Current 1993 BAU | GTEFL Proposed | Increase/(Decrease) Amount | Increase/(Decrease) Percent | Commission Approved | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---|---|---|---|---|---|---|---|---|---|
| 48 | | Rent | 3,928,993 | 3,928,993 | | | 3,928,993 | | |
| 48 | | Operator Services Revenue | 1,438 | 1,438 | | | 1,438 | | |
| 48 | | LIDB Revenue | 2,193,184 | 2,193,184 | | | 2,193,184 | | |
| 48 | | Other Customer Operations Revenue | 409,349 | 409,349 | | | 409,349 | | |
| 48 | | Plant Operations | 5,771 | 5,771 | | | 5,771 | | |
| 48 | | Other Incidental Revenue | 3,799,912 | 3,799,912 | | | 3,799,912 | | |
| 48 | | Municipal Utilities Tax | 864 | 864 | | | 864 | | |
| 48 | | CABS Extended Billing Plan Charge | 6,074 | 6,074 | | | 6,074 | | |
| | | IC Reg. Late Pay Charges | 226,661 | 226,661 | | | 226,661 | | |
| 48 | | Adjustments | 6,302 | 6,302 | | | 6,302 | | |
| 48 | | Credit Card & Third Number Settlement Revenue | 1,266,898 | 1,266,898 | | | 1,266,898 | | |
| 48 | | New Services | 155,140 | 155,140 | | | 155,140 | | |
| | SUBTOTAL: | Nontariffed Intrastate Revenues | $121,804,835 | $121,804,835 | | | $121,804,835 | | |
| | ) | Staff Adjustments: | | | | | | | |
| | | Repression/Stimulation | $4,462,913 | $4,462,913 | | | $4,132,309 | ($330,604) | -7.41% |
| | | Tariff Priceout Reconciliation | 3,028,936 | 3,028,936 | | | 3,028,936 | | |
| | | New Products | 1,252,000 | 1,252,000 | | | 1,252,000 | | |
| | | Universal Service Fund | 2,370,000 | 2,370,000 | | | 2,370,000 | | |
| | | TOTAL INTRASTATE REVENUES | $902,287,837 | $965,267,332 | $62,979,495 | 6.98% | $879,349,861 | ($22,937,976) | -2.54% |

Source: MFR Schedule E–1a (revised 9/3/92: attached to revised direct testimony of Fulp and Klassen); attachment to letter dated 10/5/92 (for access revenues, to reflect PIU audit).

crewcompe.wk3 06–Jan–93 04:21 PM Discrepancy: ($24,905)

Misc. changes: A3.10,A20.1:3,4,6;bus.msg.rate